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[LEVERAGING TECHNOLOGY, FINANCIAL CONTROL AND EXPLORATION TALENT]

PROGRESS ENERGY LTD.

[www.progressenergy.com]

ANNUAL REPORT 2000

[CORPORATE PROFILE]

Progress Energy Ltd. is an exploration and production company with a primary focus in three core areas: southeastern Saskatchewan and Manitoba, the Whitecourt area in west central Alberta, and Milo, B.C. Progress has achieved an eight-fold increase in net asset value per share over the last three years. This was achieved by concentrating in areas where we had extensive experience and this should prove instrumental in achieving future success. Our growth is driven by our aggressive drilling program, targeting a combination of low-to high-risk opportunities. Our financial strength provides us with the funds to advance our drilling program and acquire lands to expand our core areas.

[ANNUAL MEETING]

The annual meeting of shareholders will be held in the Cardium Room at the Calgary Petroleum Club 319 - 5th Avenue S.W., Calgary, Alberta at 3:00 p.m., May 30, 2000.

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Cover: Looking at a 3D depiction of a reservoir in Progress Energy's West Central Alberta area. Reservoir display is actual size and has not been digitally enhanced. Cover photo and images elsewhere in this annual report were taken by Ian Tomlinson at the offices of Veritas Exploration Services and Northstar Drilling Systems Inc.

Note Regarding Forward-Looking Statements

This discussion and analysis contains forward-looking statements. These statements relate to future events or our future performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue," or the negative of these terms or other comparable terminology. These statements are only predictions. A number of factors may cause actual results to vary materially from these estimates.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2000	1999	% CHANGE
FINANCIAL			
(\$ thousands except per share amounts)			
Gross revenue	29,593	11,162	165%
Cash flow from operations	14,604	5,367	172%
Per common share	0.97	0.39	149%
Net earnings	5,870	1,072	448%
Per common share	0.39	0.08	388%
Capital expenditures, net	23,494	18,802	25%
Shares outstanding - weighted average			
Common shares (000s)	15,060	13,730	10%
Common shares outstanding			
end of year (000s)	15,029	14,922	1%
Class B shares outstanding			
end of year (000s)	1,170	1,171	-
OPERATIONS			
Production			
Crude oil and liquids (bbls/d)	1,303	803	62%
Natural gas (mcf/d)	5,718	3,784	51%
Total production (boe/d) (10:1)	1,875	1,181	59%
Total production (boe/d) (6:1)	2,256	1,434	57%
Average sales price			
Crude oil (\$/bbls)	40.44	24.38	66%
Natural gas (\$/mcf)	4.92	2.91	69%
Operating netback (\$/boe) (10:1)	27.06	15.03	80%
Operating netback (\$/boe) (6:1)	22.49	12.39	82%
Wells drilled			
Gross	33	16	106%
Net	16.6	9.1	82%
Reserves - Crude oil and NGLs (mbbls)			
Proved	4,424.5	3,081.1	44%
Probable	1,244.8	996.7	25%
Reserves - Natural gas (mmcf)			
Proved	21,024.8	19,232.0	9%
Probable	5,929.0	10,816.2	(45%)
Established Reserves (mboe)			
10:1 basis	7,445.8	6,043.5	23%
6:1 basis	9,045.1	7,686.1	18%
Undeveloped lands			
Gross acres	257,438	240,773	7%
Net acres	193,773	198,733	(3%)

[PRESIDENT'S MESSAGE]

The year 2000 was an exceptional year for the petroleum industry. Oil prices began to recover in early 1999, continued to increase through the rest of that year and have remained steady in 2000 in the US\$30 per bbl range. Natural gas prices increased throughout 2000 but really accelerated late in the year. The combined effect of two strong commodity prices — a relatively rare phenomenon — has now made most people aware of the strength of the oil and gas sector. Progress Energy enjoyed the luxury of higher prices combined with a substantial increase in production volumes that led to record revenues, cash flow and earnings. This is the third consecutive year we report such favourable results to our shareholders.

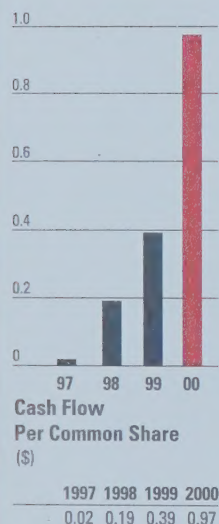
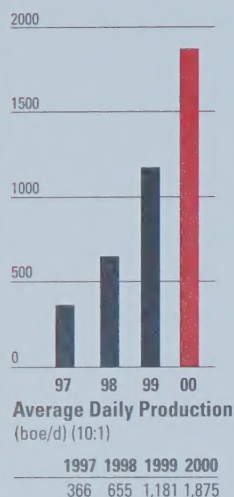
Production volumes increased by 57 percent to 1,875 boe per day in 2000 (10 mcf per boe) from 1,181 boe per day in 1999. This drove sales revenues higher by 165 percent to \$29.6 million from the prior year's \$11.1 million. Cash flow, a key measure that determines how we fund our capital expenditures, increased by 172 percent to \$14.6 million from \$5.4 million in 1999. Cash flow per common share outstanding increased by 172 percent to \$0.97 from \$0.39 in 1999. Earnings rose 445 percent to \$5.8 million or \$0.39 per common share from \$1.1 million or \$0.08 per share in 1999. Over the last year, we have observed that investors are focusing more on earnings than on "future growth potential in the new economy." Progress Energy has reported positive earnings every year, even in times of low commodity prices. Our return on equity was 28 percent in 2000.

We achieved our strong growth while maintaining a conservative balance sheet. Our debt at the end of 2000 was \$21.9 million, lower than our expected cash flow for 2001, and below our guideline of limiting debt to approximately 1.5 times cash flow. Progress retains the financial flexibility to drill at an aggressive pace, to pursue corporate or asset acquisitions and to withstand sudden reductions in commodity prices.

Our production volumes have continued to increase during the first quarter of 2001, reflecting a successful winter drilling program. Production volumes will average approximately 2,250 boe per day in the first quarter and early second quarter rates have further increased to 2,700 boe per day, up 44 percent over 2000. In fact, our gas production almost doubled in April as we tied-in four recently drilled gas wells, bringing our gas production to 9 mmcf per day. These production increases, combined with higher gas prices and relatively stable oil prices, are expected to produce strong financial results in our fourth year of operations.

2000 AND EARLY 2001 OPERATING HIGHLIGHTS

- Drilled 33 wells in 2000 compared to 16 in 1999;
- Drilled three follow-up wells at Milo, British Columbia, in winter 2000-2001 that reconfirmed our large natural gas discovery made in 1999;
- Major new natural gas discovery at Milo West;
- Gross production rates from our Milo discoveries will exceed 30 mmcf per day in 2001;
- Drilled six successful wells at Two Creek, resulting in large production rate increases;
- Completed major facilities construction at our Two Creek, Alberta project;



- Made several new natural gas discoveries, all of which are onstream, and
- Completed six acquisitions to increase production rates and expand our inventory of drilling prospects.

DRILLING SUCCESS

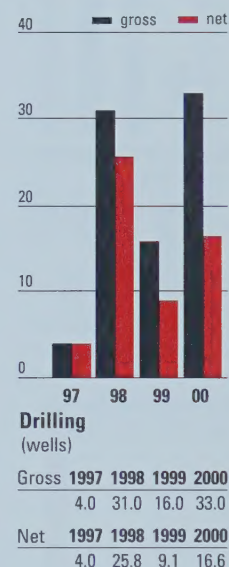
Progress Energy drilled an excellent natural gas well at Milo, British Columbia to follow up our 1999 exploration success. Our a-76-H well went onstream in March 2000 at an initial rate of 5 mmcf per day to allow us to monitor the reservoir performance. We are currently producing the well at 8 mmcf per day, although it is capable of producing in excess of 12 mmcf per day. Subsequently, Progress drilled two additional wells in the Milo area that tested gas at 6.5 mmcf and 10 mmcf per day, while a third well is still being drilled. The Company is building gathering systems and facilities to handle higher production rates. Natural gas production from the Milo area should increase from 9 mmcf to over 30 mmcf per day. Progress Energy is the operator and has a 24 percent interest in most of this production. We also plan to drill several new wells at Milo in late 2001 and 2002.

Progress Energy also drilled five very successful horizontal wells into our Two Creek oil pools in west central Alberta and will follow this up with four more wells in 2001. Progress is the operator with an 80 percent working interest. The Company also made several new gas pool discoveries in 2000 at Modeste, Kaybob and Mahaska and the wells are now onstream. Finally, in southeast Saskatchewan and Manitoba, Progress Energy drilled many successful oil wells to expand our production base in the area to 1,000 bbls per day.

FACILITIES CONSTRUCTION

Progress Energy constructed several new oil batteries and gas handling facilities in 2000. Major facilities, which were constructed at Two Creek at a cost of approximately \$3.0 million, were completed in April 2000. Specifically, we constructed a central battery to gather the oil and gas, and added natural gas compression to conserve solution gas that was previously flared. These facilities allow us to produce the wells at higher rates, decreasing operating expenses and adding a substantial new revenue stream by selling the natural gas rather than flaring it. Elimination of flaring also helps to protect the environment.

At Milo, British Columbia, we acquired gas handling and water disposal facilities to handle our increased production in the area. This provides more control as our operations expand. At the same time, we are continuing to expand the gas gathering systems in the Milo area by constructing a new 10-inch pipeline from our facilities directly to the Westcoast gas processing plant. This will give us the necessary capacity to move 50-plus mmcf per day of gas production and further reduce operating expenses.



[PRESIDENT'S MESSAGE]

ADDING TO OUR STRONG FOUNDATION

Progress replaced the amount of oil and gas we produced in 2000 by a factor of 3.1 times. At year-end 2000, our established reserves totalled 7.5 million boe, up 23 percent over 1999. Proved reserves increased by 30 percent to 6.5 million boe. Our reserve life index, which is the amount of time it would take to produce all of our reserves, is a healthy 10.6 years, down from 1999's 11.5 years. Our reserve life index target is eight to nine years. Therefore, we have opportunities to increase production rates from our existing reserves.

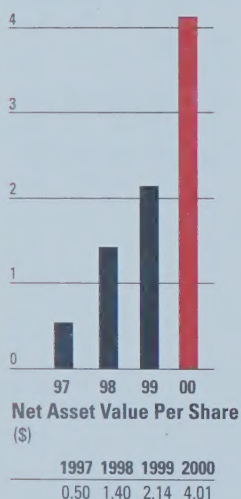
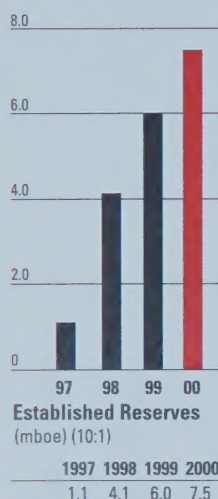
Our finding and development costs for 2000 were \$10.65 per proved boe using a conversion rate of 10 mcf of gas per bbl of oil. This compares to a cost of \$9.30 per proved boe that we reported in 1999 and a three year average of \$8.30 per proved boe.

A cornerstone of our foundation from a shareholders' perspective is the significant increase in our net asset value per share over the last 3.5 years. On a fully diluted basis, Progress Energy had a net asset value of \$4.01 per common share at December 31, 2000. We believe this value has increased at the time of writing this report due to our first quarter 2001 drilling success. Compare this value to the \$2.14 per share we recorded in last year's annual report and the \$0.50 per share value in late 1997. Unfortunately, in 2000 the market did not fully appreciate this growth in fundamental value. Our share price lagged the value our people created — essentially an eight-fold increase in net asset value. However, we are beginning to see signs of a turnaround in investor attitude toward the sector and our share price, particularly as people begin to see the real value of oil and gas companies like Progress Energy that have good assets and strong technical teams to develop their properties.

TECHNOLOGY IN THE PETROLEUM INDUSTRY

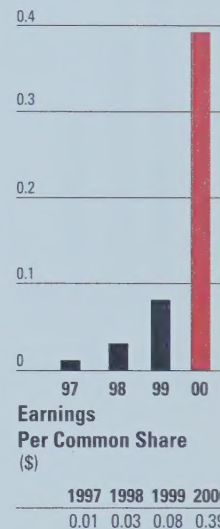
This year, our annual report centres on the use of computer-driven technology in the petroleum industry. This industry has been characterized as "old economy" because it has been in existence for more than a century. The reality is that advanced technologies are allowing producers to discover new reservoirs that could not have been found even four or five years ago. This is as true for offshore Canada and the United States as it is in the Western Canadian Sedimentary Basin. This reality is particularly important because there has been no abatement in demand for petroleum products worldwide and we do not anticipate any slowdown in demand for the foreseeable future. In the pages ahead you will meet some of our service providers and the technologies they employ, and how this has impacted some of our largest discoveries to date.

Another aspect of technology relates to the costs of finding and producing oil and gas reserves. Indeed, advanced technologies have reduced these costs so that governments have been able to layer on a heavy tax, although the industry continues to deliver the least expensive energy products that money can buy.



The petroleum industry is in the forefront of developing new information technologies that are then repackaged for other industrial sectors and consumers. The Internet is playing a major role in extending the use of technologies to drilling theatres. At Progress, the use of downhole cameras mounted on drill strings allows members of our exploration team to monitor an entire drilling sequence right from their desktop computers. When remote wells come onstream, we are able to monitor production rates continuously from Calgary. As well, the Internet and information technologies have made it relatively simple to monitor entire producing fields from a laptop or desktop computer. There is unlimited information available and our professionals turn this information into knowledge.

Investors who have been stung by the evaporation and loss of value of new economy companies are quickly realizing the merits of bricks and clicks industries like the oil and gas sector. We are already seeing investors return to the sector, attracted by the new value-driven paradigm which, in combination with strong commodity prices, is resulting in record profits and return on equity. Cash flow is no longer king of the oil and gas sector, although it is essential to replacing production and finding new reserves of oil and gas. The industry is increasingly being driven by profit, and capital intensive projects must pass stringent economic hurdle rates before producers proceed with them.



MAJOR SHAREHOLDER SELLS PROGRESS ENERGY INTEREST

In November 2000, Northrock Resources Ltd. sold its 7.65 million common shares in Progress Energy. Most of Northrock's holdings resulted from our original acquisition of oil properties in southeast Saskatchewan and Manitoba in 1997. Northrock expanded its holdings in 1998 and 1999 by participating in private placements. The shares were sold via a secondary issue of special warrants to a group of financial funds and individuals. The special warrants were cleared for conversion to common shares when our prospectus was approved by the Alberta Securities Commission in February 2001.

OIL INDUSTRY ENVIRONMENT

Both crude oil and natural gas prices are at their highest levels in 15 years. Many consumers think that this is unfair, but seem to forget that prices for housing, new cars, chocolate bars and salaries are also at their highest level in 15 years. We predict that prices will remain relatively high for the next several years due to the relentless increase in demand for oil and natural gas and the challenges of increasing supply. Last year we told you why oil prices fluctuated so much in the past few years and why they would stabilize at higher prices. We believe oil prices will remain within 20 percent of US\$29 or CDN\$43 per bbl throughout 2001 and 2002.

[PRESIDENT'S MESSAGE]

NATURAL GAS INDUSTRY ENVIRONMENT

Demand for natural gas has been increasing steadily for decades. Every time someone builds a new home, shopping centre or strip mall in Canada or the United States, it is probably heated by natural gas. You consume electricity — which is increasingly being generated by natural gas — every time you switch on a light, watch television or use your computer to check the stock price of Progress Energy. As a society we have turned away from hydro-electricity, coal-fired and nuclear generators in favour of natural gas to produce our electricity.

In Western Canada we historically produced more gas every year to meet rising demand. Today, the industry drills more new gas wells each year to supply this demand. Pulling hard on the new wells that are drilled into smaller pools translates into higher production decline rates than ever. Even the great old wells almost always continually decline in productivity. Consequently, we have to drill more successful gas wells each year just to maintain a constant production rate. In Alberta, 2000 natural gas production was less than the prior year and in early 2001 an even lower volume of natural gas is being fed into the TransCanada Pipelines Ltd. (formerly Nova) gas gathering system, the largest of its kind in Canada (after accounting for the Alliance pipeline volumes). This is a continuing trend. We are not running out of natural gas; our industry is just experiencing a short-term problem of trying to increase overall production rates.

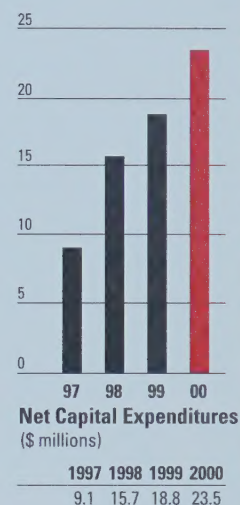
The oil and gas sector is working almost flat-out to drill more wells which are clearly required to increase supply. This level of activity will create equipment and manpower shortages. The industry may also face challenges in finding enough good drilling prospects in the timely manner required. A higher natural gas price provides our industry with the necessary additional cash flow to drill and equip more wells in order to increase gas production. In addition, a higher price encourages consumers to be more efficient, although consumers do not appreciate this kind of encouragement.

Supply/demand fundamentals drove natural gas prices to very high levels between November 2000 and February 2001 (over \$10 per mcf for Progress Energy). In the end, there was enough gas to meet demand; however, consumption depleted the storage reservoirs used to supply the peak demand during the winter. We expect that prices will remain in the \$5-\$8 per mcf range to encourage enough new supply to refill the storage reservoirs for next winter. Supply and demand will be tight for the next several years.

EXPECTATIONS FOR PROGRESS IN 2001

Progress Energy's 2001 capital budget of \$30 million will be funded from cash flow and our line of credit. Our capital expenditures will be driven by our cash flow and the opportunities we create. However, we will limit debt to 1.5 times current annualized cash flow or less. We have maintained a large inventory of drilling prospects and continued with our aggressive program by drilling 11 wells in the first quarter 2001.

Progress Energy has now optimized some of our smaller oil and natural gas pools. Most of these pools will continue to be produced to yield production revenues; however, we plan to sell or trade certain pools for cash or new properties. Consequently, the Company will have the financial capability to expand into new core areas of operations in late 2001. Production rates in 2001 are forecast to average 2,650 boe per day, a 41 percent increase over 2000. Sales revenue will be in the range of \$45 million, yielding cash flow of approximately \$22.5 million (assuming the price forecast supplied by Paddock Lindstrom and Associates Ltd.). Cash flow per common share is forecast to increase by 55 percent to \$1.50, compared to \$0.97 in 2000.



ACKNOWLEDGEMENTS

Our Board of Directors has changed over the last year to reflect our changing shareholder base. Mr. Kevin Olson and Mr. Dave Pearce, who represented Northrock Resources' interests, resigned when Northrock disposed of its shares. Mr. John Stewart, Vice Chairman of ARC Financial Corporation, and Mr. John Brussa, partner with Burnet Duckworth and Palmer, have agreed to stand for election to the Board. Our Board is very experienced in the oil and gas industry and provides insightful guidance.

We also thank the Progress management team which contributed in such a meaningful way to the Company's increased production, reserves, net asset value, and ultimately the share price.

On behalf of the Board of Directors,

Kenneth J. Bowie, P.Eng. MBA
President and CEO
April 3, 2001

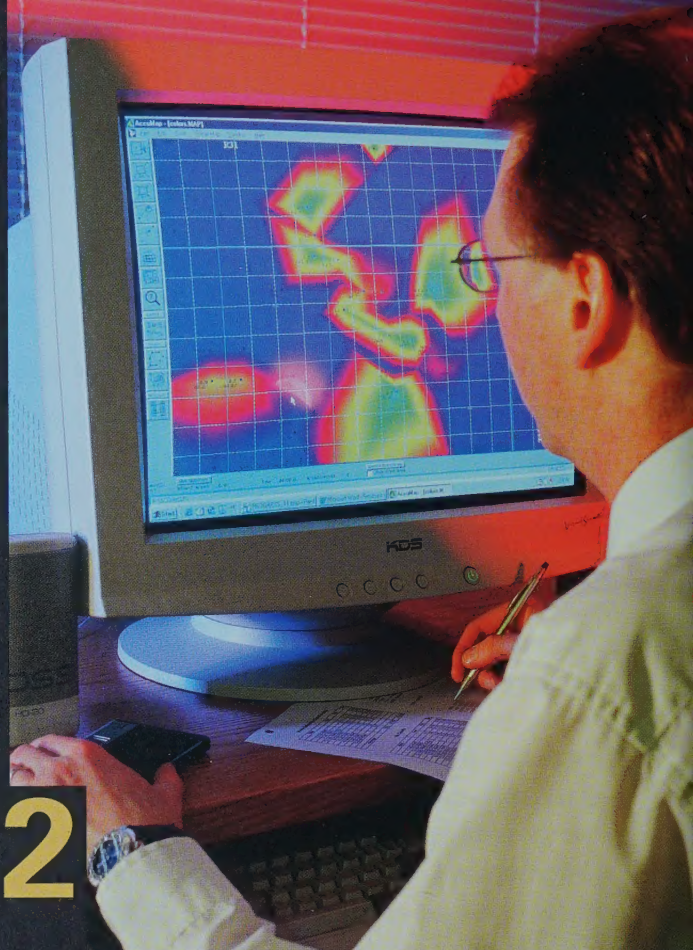


1

[3D SEISMIC]

Three-dimensional (3D) seismic provides the key visual tool to enable the technical team to “look” at the results of the seismic shoots that generated the huge data sets that were eventually processed and interpreted into a mathematical model of the sub-surface. It allows us to identify pools we otherwise wouldn’t know were there, as well as to correctly place wells in pools that might have been identified under 2D seismic, but carried a far higher risk of unsuccessful drilling.

2D seismic is still widely used to identify prospective geological features. In some areas we rarely drill without the greater certainty of 3D seismic. Two Creek is only 10 percent covered by 3D seismic — but it’s the crucial 10 percent, and is how we identified the reservoir distribution that allowed us to drill successfully. In 2001, Progress is shooting more 2D and 3D seismic.



2

[RESERVOIR MODELLING]

Reservoir modelling occurs at two stages: before drilling, when geologists create an image of the new target reservoir; and years into production, when engineers seek to get the most out of an existing pool. Reservoir modelling is especially useful during the production phase. Like many producers, Progress employs waterfloods to improve recovery rates from oil pools in southeast Saskatchewan, creating incremental reserves and production.

Today’s software allows us to create a detailed model of what our reservoir is doing. Then it can forecast the reservoir’s behaviour under various scenarios — no further investment, in-fill drilling of new producing wells, or additional conversion of producing wells into water-injectors. Reservoir modelling helps us avoid costly mistakes, like needless drilling, and get the greatest possible production and cash flow out of a producing reservoir.

[TECHNOLOGY - HOW IT DRIVES OUR GROWTH]

Today's technology is about reducing risk and increasing certainty. It's about tipping the economic balance of a known pool from uneconomic into a money-maker, or the risk-reward balance of a new prospect from too risky to drillable. In some cases, technology is identifying unknown pools. In others, it's turning marginal wells which may have been suspended into producing wells.

Three-dimensional (3D) seismic has been talked about for years. But 3D seismic today is far better than it was 10 or 15 years ago. Huge improvements have been made as computing power grew in leaps and the cost of processing power and memory plummeted. Today there's more computing power on workstations at Progress Energy than there was in a major company's mainframe in the 80s. Data is now measured in terabytes — thousands of gigabytes.

Twenty years ago, 2D seismic identified a Keg River reef at Milo. But it didn't show where to drill. The result was two expensive dry holes, bad enough to break an emerging producer. Two years ago, 3D seismic allowed Progress to pinpoint the producing zone, less than 300 metres from the dry hole. Progress then utilized a newer drilling technology. The \$2 million cost of a new, vertical well would have been too high for Progress. But horizontal drilling got us where we needed to go. We re-entered one of the existing wells, which had hit tight rock unable to produce economic volumes, and drilled laterally, into the permeable zone. Result: for \$900,000 we got a well producing at 5 mmcf per day.

Horizontal wells are used even more frequently to tap shallow to medium depth oil pools. At Two Cr  ek, horizontals have come in at up to 400 bbl of oil per day often pay out in three to four months, and produce at 100 bbls per day or better a year out, versus 30-60 bbls per day for vertical producers.

Short-term finding and development costs are going up in response to record activity levels. But there's no doubt technology has had a huge cost-reducing effect in the Western Canadian Sedimentary Basin. Technology promises to extend the useful life of individual pools, fields and even entire basins that some people have judged "mature."



3

[WELL PLANNING]

When it comes to selecting a new drilling location, the biggest improvement has been the ability to access public well-log data on-line. The traditional method of cabinets full of microfiche — took years to build, required roomfuls of space, dedicated equipment and trained operators, and was very cumbersome. Operators would cut out copies with scissors and paste them together for comparison.

Today, Progress can access an electronic database and can retrieve any set of well logs — for instance, all the existing gas producers surrounding a new prospect. Looking at how analogous pools in an area have performed helps us to plan drilling locations and work out a model of a potential new well's likely economic value. This saves time and money and reduces exploration risk. There's an enormous amount of data available to our technical team. Last year, Progress linked its head offices to Calgary's fibre-optic network.



4

[DRILLING]

In drilling, time really is money. Today's technology is cutting drilling times. A deep test took a month as recently as 1995; today a 3,000 metre well can be drilled in 21 days. Credit goes to new tools like polycrystalline diamond compound drill bits that are harder, sharper and faster than old bits.

3D seismic tells us where the pool is likely to be. Downhole tools have improved tremendously, as has measurement-while-drilling (MWD). Pinpointing a drill bit's location to within a few metres, even thousands of metres underground, allows us to place a wellbore above the water zone even in a very narrow reservoir. Where there's multi-zone opportunity, we can snake the well through two or more producing intervals.

It used to take days to transport well logs to head office for analysis and a decision on whether to proceed to casing and testing. Now, well logs are relayed by secure satellite link to head office and a decision can be made within hours.

5



PRODUCTION TECHNOLOGY

Natural gas reserves in many of the "tight" formations drilled today would be uneconomic using historical technology. Fortunately, fracturing techniques and the computer programs that support them keep improving. Progress employs sophisticated software to simulate the effects of hydraulic fracturing on various wells, allowing us to "high-grade" candidates and to select the amount of fracturing that will optimize the balance of front-end investment to incremental cash flow.

Today's fracturing contractors arrive on-site in computer-packed vans, enabling the team to visualize the fracturing in real-time and make optimizing adjustments. The outcome is a two-millimetre-thick fracture radiating from just a few metres to as much as 100 metres or more from the wellbore. Packed with highly permeable, coarse sand, the fracture multiplies the reservoir surface area exposed, transforming a trickle of uneconomic production into a productive well.

6



SCADA SYSTEMS

The Supervisory Control and Data Acquisition (SCADA) system is a key field tool that allows near-real-time remote monitoring of producing wells. At the Milo play, performance data are relayed by wireless link to the Fort Nelson field office. Previously, well monitoring required a daily visit by a field operator, and even a minor problem — freezing or pump failure — might put a well down for a day. Now, our operators can take corrective action immediately.

Being freed from spending hours daily driving to well sites allows our operators to concentrate on technical and strategic tasks. And head office can respond to changing market conditions. In one case, we turned up a gas well's production from 6 mmcf per day to 7 mmcf per day through one telephone call to the field office, followed by a few seconds' work on their workstation. We believe the SCADA system, where implemented, is reducing operating costs by at least 10 percent — a key advantage in an era of cost pressures — and is improving well-productivity by as much as 10 percent, increasing the Company's cash flow.

[2000 EXPLORATION REVIEW]

STRATEGIC OVERVIEW

During Progress' 1997 inception, we developed a strategy that we believed would generate continual growth and maximize value for our shareholders. We have continued to employ that strategy, which has contributed to Progress' success over the past three years. The key elements of this strategy are:

- Generate profitable growth through a combination of exploration, exploitation and strategic property acquisitions
- Establish viable core areas with high working interests and operatorship of most properties in order to control the timing and cost of our capital projects
- Concentrate full-cycle exploration efforts in our areas of technical expertise
- Focus attention on shallow to medium-depth, multi-zone targets
- Ensure property acquisitions have future exploration, exploitation and optimization opportunities
- Farm-in on lands where we can tie up significant, high quality unproved acreage in a relatively short period of time

Considerable attention was directed to development activities in our core areas during 2000, as Progress concentrated a significant portion of resources to drilling development wells and building facility infrastructure to support our increasing production base. At the same time, we continued to increase our undeveloped land holdings in Alberta and British Columbia, and to utilize seismic technology and our geological expertise to generate exploration opportunities in our core regions. Exploration success was achieved at Two Creek, Modeste and most recently at Milo. Progress made seven property acquisitions during the year to consolidate our interests in several key properties and to add new properties adjacent to other operated areas. Many of the new properties presented excellent development and optimization opportunities.

MILO	2000	1999	1998
Undeveloped land (net acres)	1,409	808	-
Oil and liquids production (bbls/d)	-	-	-
Natural gas production (mcf/d)	1,932	1,573	-
Total production (boe/d 10:1)	193	157	-
Total production (boe/d 6:1)	322	262	-
Wells drilled (gross)	1	1	-

TWO CREEK	2000	1999	1998
Undeveloped land (net acres)	15,824	12,826	8,102
Oil and liquids production (bbls/d)	364	198	95
Natural gas production (mcf/d)	1,515	-	-
Total production (boe/d 10:1)	516	198	95
Total production (boe/d 6:1)	617	198	95
Wells drilled (gross)	9	3	4



WHITECOURT	2000	1999	1998
Undeveloped land (net acres)	20,514	14,527	7,384
Oil and liquids production (bbls/d)	27	30	-
Natural gas production (mcf/d)	2,196	2,181	-
Total production (boe/d 10:1)	247	248	-
Total production (boe/d 6:1)	393	394	-
Wells drilled (gross)	9	9	5

SOUTHEAST SASKATCHEWAN/ MANITOBA	2000	1999	1998
Undeveloped land (net acres)	150,742	165,421	167,889
Oil and liquids production (bbls/d)	912	575	559
Natural gas production (mcf/d)	75	-	-
Total production (boe/d 10:1)	920	575	559
Total production (boe/d 6:1)	925	575	559
Wells drilled (gross)	14	3	15

[REVIEW OF CORE AREAS]

MILO, BRITISH COLUMBIA

In only three winter drilling seasons this property has been transformed from a high-risk exploration prospect into a core producing area for the Company. Production has increased from nil to over 30 mmcf per day from the Milo area with many new drilling prospects yet to pursue. Milo is located just west of Fort Nelson in northeast British Columbia. Progress Energy has a 24 percent working interest and is the operator of the original Keg River reef discovery.

Early in 2000, we followed up our 1999 horizontal discovery well with a successful vertical well, a-76-H/94-J-11. This well commenced production at a restricted rate of 5 mmcf per day of natural gas. After more than six months producing at this rate we began to increase the volume to a level more in line with the well's capabilities. The well is currently producing at 8 mmcf per day with no significant water production. We believe this is still less than the well's deliverability, which offers the opportunity to further increase its production level.

The discovery well, which has already recovered more than 3 bcf, is structurally lower in the producing Keg River Formation. It became apparent after a few months of production that high gas withdrawal rates resulted in some water production. We have found that at its current rate of 3-4 mmcf per day, the reservoir drawdown is low enough to prevent excessive water coning. This winter Progress re-entered the well bore to place a liner along a portion of the horizontal section that is believed to be the water source. If successful this would enable the Company to increase the production rate without increasing the water production rate.

In light of this pool's large-scale reserve potential, Progress went into the past winter drilling season with the intention of putting in three further development wells. As of mid-April 2001, the Company had drilled and completed and begun tying in two of them. Both wells appear capable of producing at least 8 mmcf per day. The third new well was suspended prior to reaching the target depth due to mechanical problems and the onset of spring breakup. Drilling operations on this well will resume in late 2001.

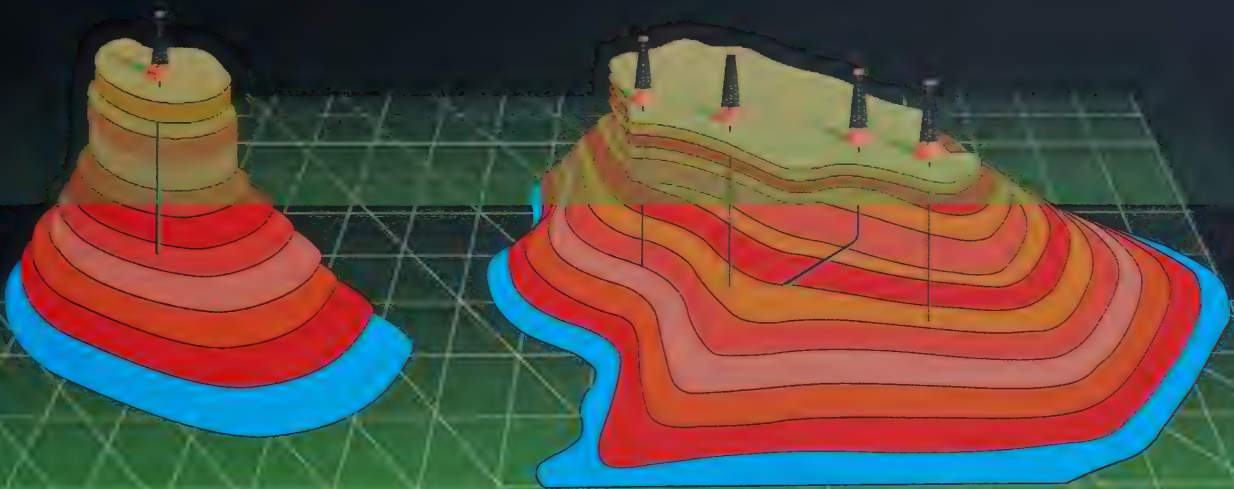
At Milo West, our geological and geophysical interpretations were correct and we were rewarded with a new pool discovery and a well that flow-tested at more than 10 mmcf per day. The well, b-72-G/94-J-11, targeted a separate Keg River reef which had been identified on the original 3D seismic program. Progress has a 13.1 percent working interest in this property. This well is now tied in and onstream in early April. Additional drilling on this feature will begin next winter.

To accommodate this large increase in production, we have been busy assembling infrastructure to ensure that we can get this gas to market. Last summer Progress purchased the field dehydration and water disposal facility that the Company had previously been using on a custom fee basis. This has decreased operating expenses and given Progress control over the facility's capacity.

MILO



■ Progress Lands
 — Pipeline
 * Gas Well
 * Suspended Gas Well
 ✦ Dry & Abandoned Well
 ■ Reef



3D representation of the Milo reefs. The structure on the left, Milo West, was identified on seismic in 1999 and drilled in the winter of 2000/2001. The well was placed on production in the first quarter of 2001.

[REVIEW OF CORE AREAS]

We also obtained approvals to construct a 254-millimetre pipeline from that facility to the Westcoast mainline. This will save on gas transportation fees and prevent the existing six-inch line from becoming a bottleneck. Progress suspended construction of the new line upon an early spring breakup, and now intends to finish the project in the next winter season.

In addition, we are in the approval process for the construction of a gas plant with a capacity of 60 mmcf per day. This would allow the Company's production to bypass the Westcoast Fort Nelson plant, saving on gas processing fees and guaranteeing availability of processing capacity.

Milo is a remote area that is only accessible for three to four months each year. For three successive winters, our operations staff have done an outstanding job of managing tremendous activity levels in a short time-frame, while at the same time complying fully with all regulatory requirements to minimize environmental disturbances. Gross production revenues over the next year will be over \$75 million, with over \$22 million paid to the government of British Columbia. Everyone benefits when development is completed in this manner.

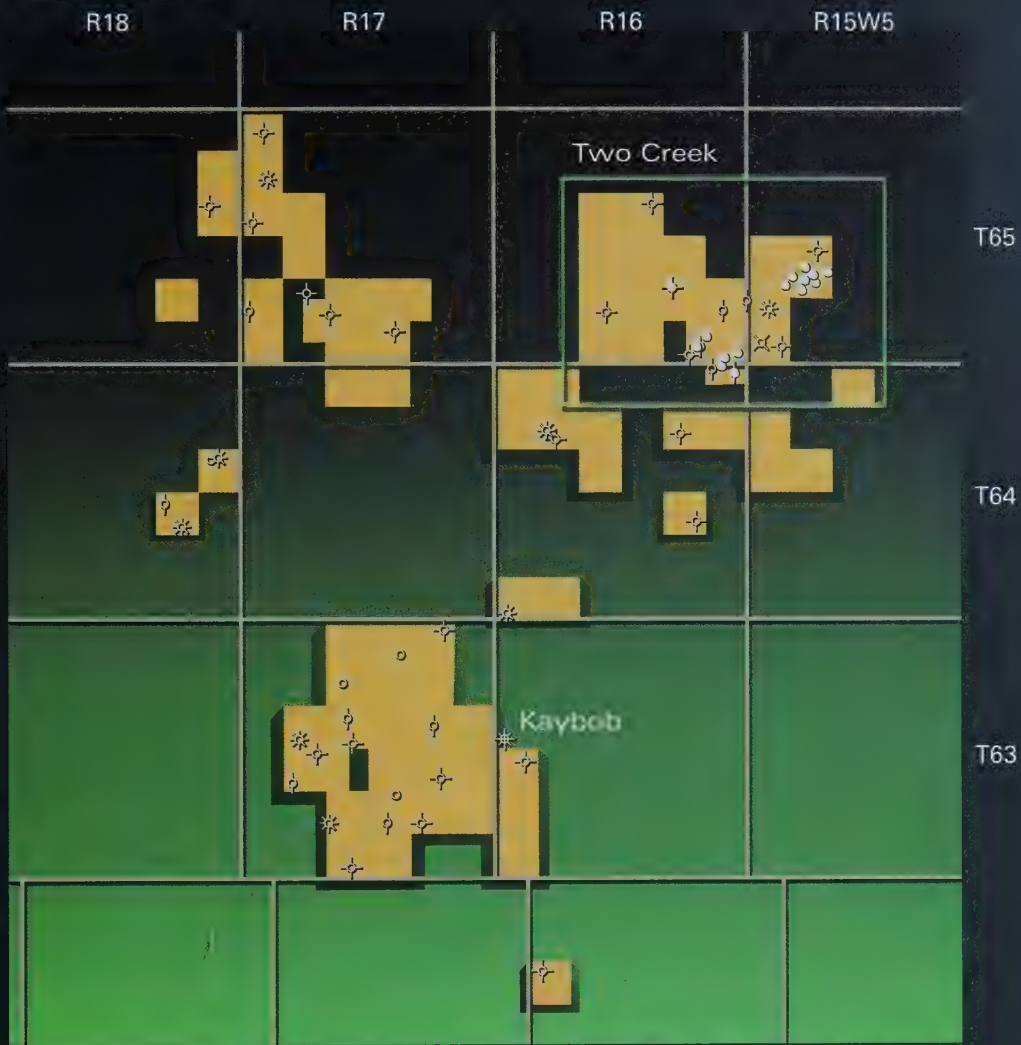
TWO CREEK AND KAYBOB, ALBERTA

Two Creek is located in west central Alberta, northwest of Whitecourt. Production is from two Jurassic oil pools and one Lower Mannville natural gas pool. Development of this 80 percent working-interest core area continued throughout the year as additional wells and facilities were added. Our strategy of exploiting these pools through horizontal drilling has been extremely successful. During 2000, Progress drilled six producing oil wells, five of which were horizontal. The new wells increased the field's production from 225 bbls per day in January 2000 to 1,050 bbls per day in January 2001. Some of the horizontal wells are rate-restricted and are capable of producing at up to 250 bbls per day each. Progress has applied to reduce the production restrictions.

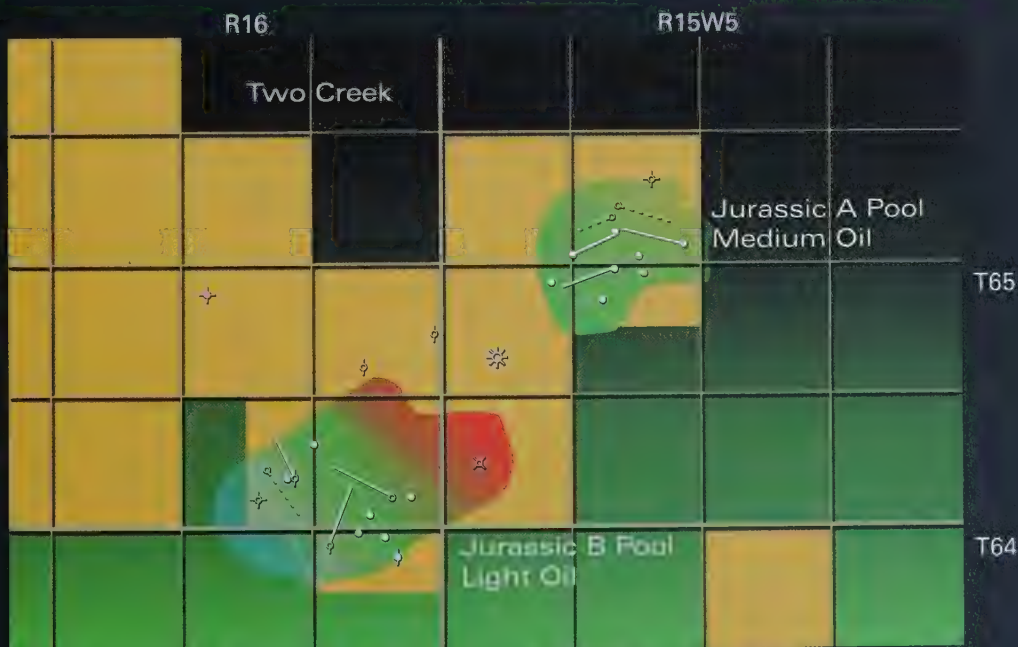
Early in 2000, we completed the construction of a battery and sales line which reduced operating expenses, reduced rate restrictions on one of the two oil pools, and brought onstream sales gas volumes of 2 mmcf per day. At the end of the year a compressor was added to the battery to reduce flaring, further increasing the sale of solution gas. As of mid-March 2001, an additional horizontal well was being drilled, with several more planned for 2001. In addition, a number of seismically defined exploration plays will be drilled this year as we continue to grow in this core area.

Kaybob lies southwest of Two Creek and is the focus of an active exploration program. The area contains many prospective zones including the Viking, Ostracod, Gething and Jurassic. Progress made a dual Viking gas and Jurassic oil discovery in 2000. Our working interest is 50 percent before pay-out and 30 percent thereafter. The Viking gas was placed on-production in June, although the production rate has declined to where the well will be converted to a Jurassic oil well this spring. A large seismic program has been shot in the area resulting in additional locations that Progress intends to drill this year. Progress now has control of 77 sections of land in the Two Creek-Kaybob area at an average working interest of over 60 percent, most of which we operate.

TWO CREEK



Detailed view shows outline of Two Creek oil pools



- Progress Lands
- Gas Well
- Oil Well
- Water Disposal
- Suspended Gas Well
- Horizontal Well
- Proposed Horizontal Well
- Dry & Abandoned Well
- Location

[REVIEW OF CORE AREAS]

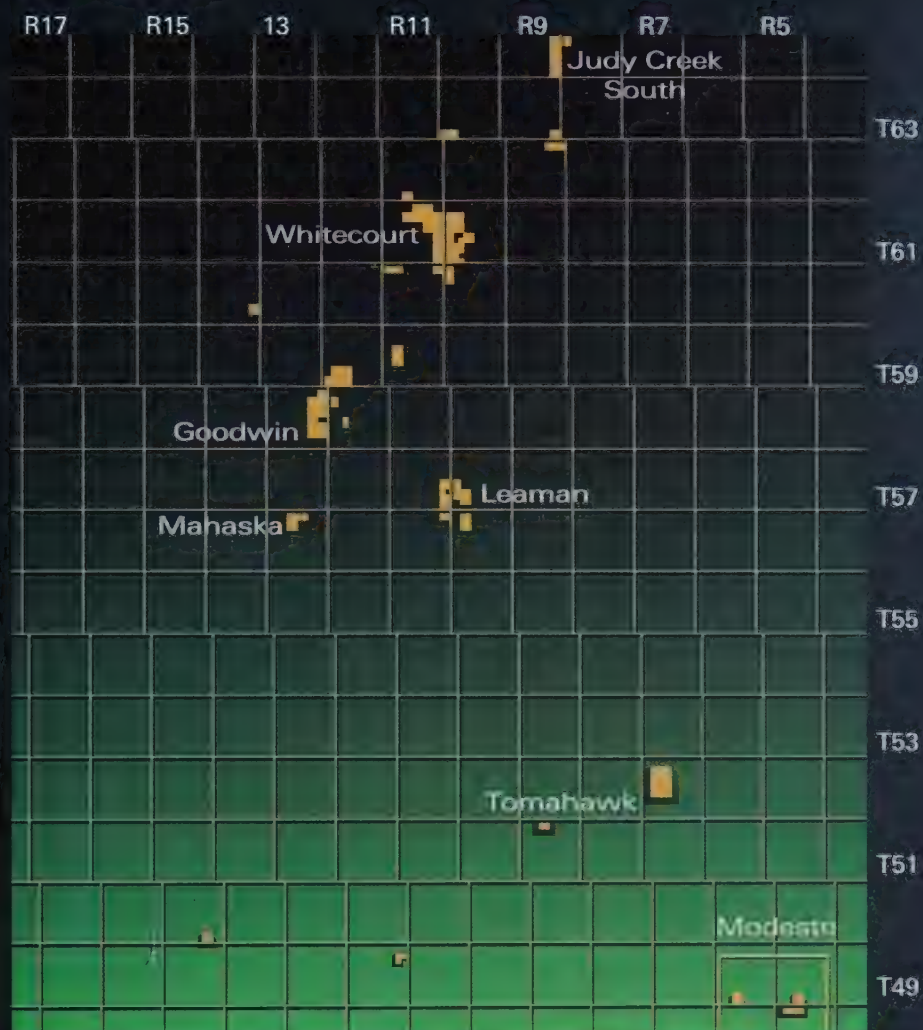
WHITECOURT, ALBERTA

The Whitecourt region covers a large area and includes the Whitecourt, Mahaska, Goodwin and Modeste producing properties. With year-round access and multi-zone gas potential at medium depths, Whitecourt remains a core area for the exploration and development of new gas reserves. In 2000, Progress drilled a successful Nordegg gas well (70 percent working interest) at Modeste which was tied in during January 2001. The Company is evaluating an offset location for the second half of 2001.

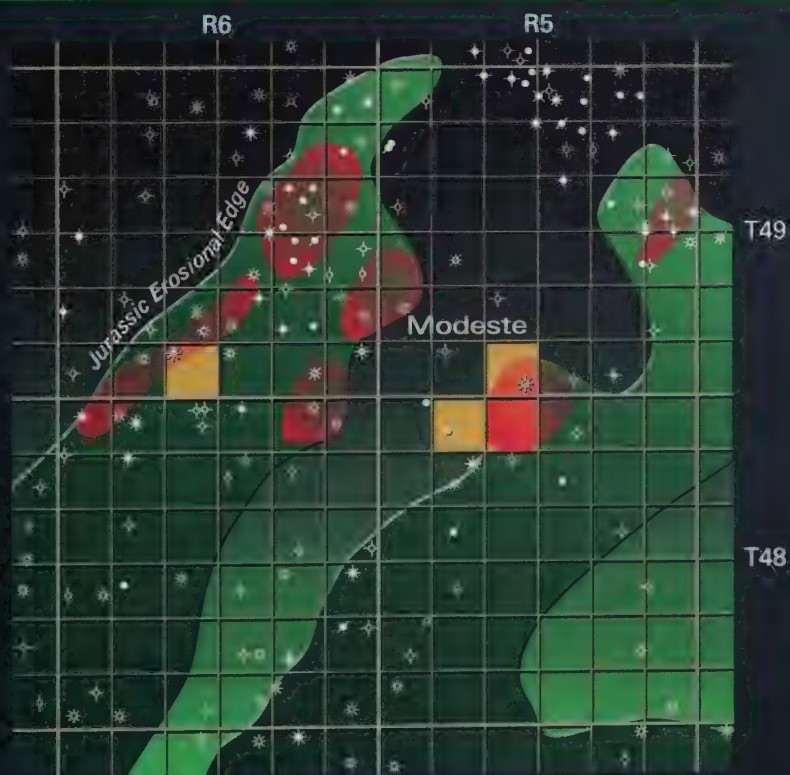
At Mahaska, Progress Energy's 50 percent working-interest well at 15-34 was tied in and is now producing. Two other potential gas wells remain to be tied in pending economic evaluation of recoverable reserves.

During 2000, production difficulties in three Whitecourt wells and one Pembina well resulted in the premature loss of gas production. We believe considerable reserves remain and we are making efforts to re-establish this gas production through a plunger lift system and other well stimulation techniques. Progress Energy has established a large land holding in the Whitecourt area through purchases and farm-ins and now controls over 50,700 acres of land with an average working interest of 47.35 percent.

WHITECOURT



Distribution of the Jurassic reservoir in the Modeste prospect.



Progress Lands * Gas Well * Suspended Gas Well • Oil Well ◦ Location
 ✦ Dry & Abandoned Well ◼ Pool Edges

[REVIEW OF CORE AREAS]

SOUTHEAST SASKATCHEWAN/MANITOBA

The recovery of oil prices in 2000 allowed Progress Energy to accelerate its strategy of drilling light oil (32° API), low risk horizontal wells in Southeast Saskatchewan/Manitoba. The primary geologic targets include the Midale, Frobisher-Alida and Bakken formations. We also added to our exploitable asset base by acquiring additional interests in existing properties and expanding our land base in prospective areas. The Company continues to pursue its goal of managing costs by operating our key properties.

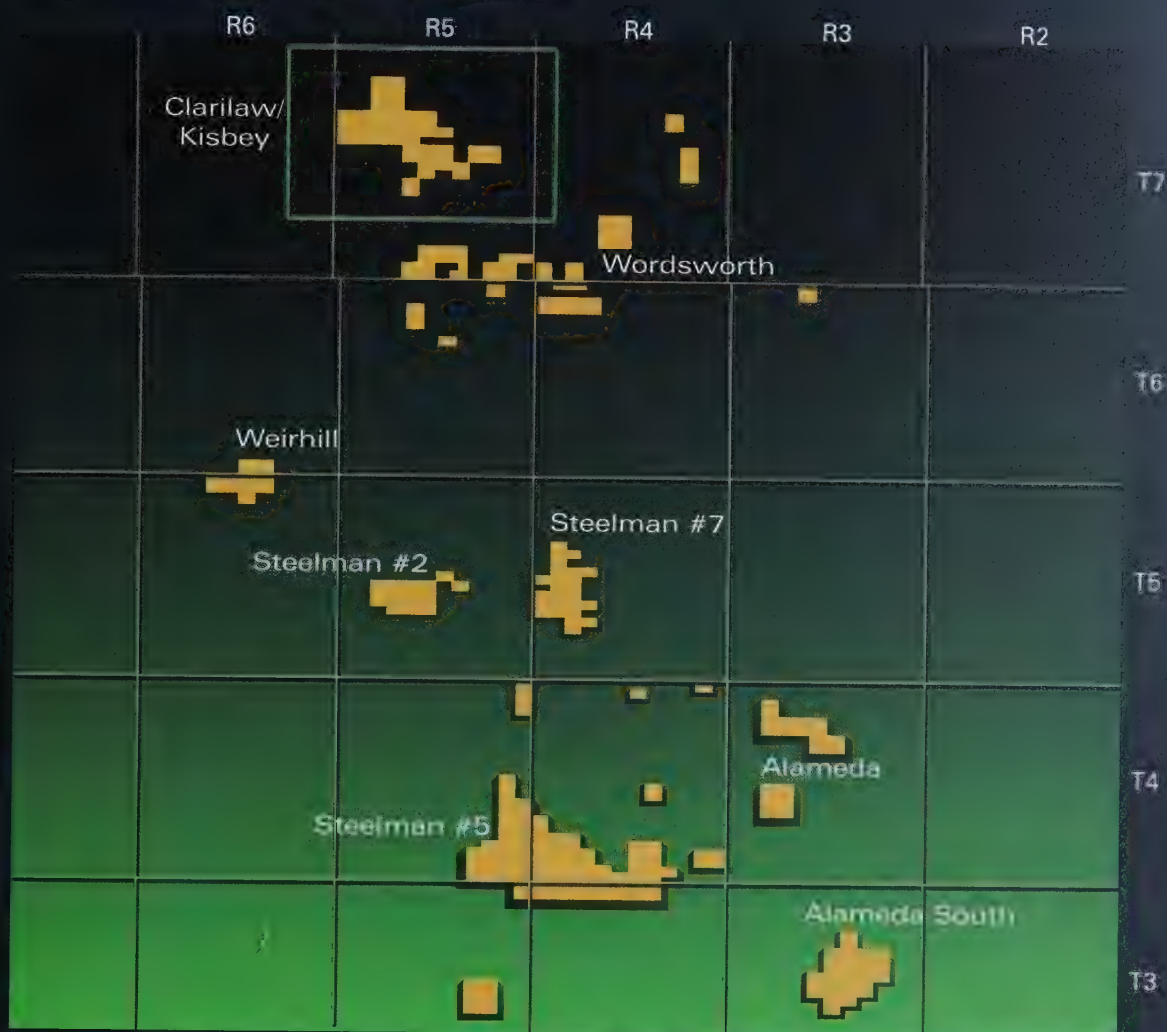
Progress was successful in acquiring a 100 percent working interest in the South Alameda unit that produces oil from the Midale Formation. One well was drilled on this property and additional wells are planned for 2001 in order to exploit this sizable asset. At Steelman Unit #7 (45.7 percent working interest), Progress drilled three wells, including two oil wells and one well that was dry and abandoned. The success of this program resulted in the addition of more drilling locations for 2001. Progress recently drilled an oil well in our 100 percent working interest Kisbey/Clarilaw block through a farm-out agreement where the Company pays 21 percent of the drilling cost and retains 56 percent of the production revenue. The well currently produces at over 175 bbls per day. We shot a 3D seismic program over a portion of our lands early this spring. Progress is excited about the potential of this property as we have over 10 more drilling locations in this area.

Plans in 2000 to drill an infill program at Rocanville went unfulfilled as we were unable to obtain partner approval. We believe there is considerable potential to increase recoverable reserves and will continue to pursue this opportunity. At Birdtail, which has a similar farm-out to the Kisbey/Clarilaw block, we kicked off a four-well drilling program aimed at extending the boundaries of our existing Bakken oil pools. All four wells were successful; however, preliminary production figures suggest water from an overlying zone may be entering our well bore. We are continuing to evaluate ways to eliminate this problem.

At Virden, Manitoba, Progress farmed out and drilled two successful horizontal oil wells in the Lodgepole Formation. Again, Progress will pay 21 percent of the drilling cost and retain 56 percent of the production revenue. We anticipate drilling more wells later this year.

Finally, Progress participated in many smaller-interest, non-operated properties in 2000. The end result from our work was to increase production rates by 60 percent to 920 boe per day from 575 in 1999. Current production rates exceed 1,000 boe per day net to Progress and we will continue our strategy of drilling wells and purchasing under-optimized oil pools.

SOUTHEAST SASKATCHEWAN



Close-up of the
Clarilaw/Kisbey
area shows
plan view of
3D seismic



- Progress Lands
- 3 D Seismic
- Producing Oil
- Horizontal
- Dry & Abandoned Well
- Oil Battery

[2000 OPERATIONS REVIEW]

UNDEVELOPED LAND HOLDINGS

Progress increased its gross undeveloped land base by seven percent in 2000, however its net undeveloped land base decreased by three percent during the year. This reflects the fact that Progress decreased its total undeveloped land position in southeast Saskatchewan/Manitoba through a sale of certain undeveloped lands for \$700,000 and expiries while acquiring new holdings in Alberta and British Columbia through Crown land sales and farm-ins. The Company's working interest participation in the new land acquisitions was lower than the lands relinquished, resulting in the decrease in net undeveloped acreage.

Undeveloped lands (acres) ⁽¹⁾	2000	1999	1998
Gross acres	257,438	240,773	209,122
Net acres	193,772	198,733	186,889
Average working interest	75.3%	82.5%	89.4%

(1) Does not include "unearned" farm-in acreage

2000 CAPITAL PROGRAM

Progress' 2000 capital program increased by 25 percent over 1999 to \$23.5 million. Fifty-four percent of the Company's 2000 capital expenditures were devoted to drilling and completion operations with Progress drilling a total of 33 wells. Progress allocated 21 percent of its spending to increasing production facility infrastructure with the largest project being \$2.4 million net for a central battery and gas conservation scheme at Two Creek. Fifteen percent of the Company's capital expenditures were allocated to seven property acquisitions with the largest acquisition closing in July 2000 for \$2.3 million for a package of properties in Southeast Saskatchewan/Manitoba.

Capital expenditures			
(\$ thousands)	2000	1999	1998
Land	1,020	440	1,046
Geological and geophysical	1,322	791	862
Drilling and completions	12,606	6,989	8,742
Equipping and facilities	4,917	5,650	1,605
Acquisitions (net of dispositions)	3,552	4,822	3,305
Other	77	110	154
	23,494	18,802	15,714

DRILLING ACTIVITY

During the year, Progress drilled one (0.3 net) well in British Columbia, 19 (11.4 net) wells in Alberta, nine (3.6 net) wells in Saskatchewan and six (1.3 net) wells in Manitoba for a total of 33 (16.6 net) wells. The Company was the operator of 22 wells drilled during the year. With oil prices remaining extremely strong throughout 2000, Progress concentrated its drilling efforts on our oil development opportunities. Sixty-one percent (59 percent net) or 20 (9.7 net) of the wells drilled were development oil wells. Progress participated in 11 (6.6 net) exploration wells with successes in the Kaybob (Two Creek) and Modeste areas of Alberta.

Drilling results (wells)	2000 gross	2000 net	1999 gross	1999 net	1998 gross	1998 net
Oil	21	10.3	4	2.2	16	14.1
Natural gas	5	2.7	9	4.6	6	4.1
Dry and abandoned	7	3.6	3	2.3	9	7.7
Total	33	16.6	16	9.1	31	25.8
Exploration wells	11	6.6	11	6.9	15	12.5
Development wells	21	10.0	5	2.2	16	13.3
Success rate	79%	78%	81%	75%	71%	71%

RESERVES

Progress Energy replaced the amount of oil and gas it produced in 2000 by a factor of 3.1 times. At year-end the Company's established reserves totalled 7.5 million boe (at 10:1 conversion), up by 23 percent over year-end 1999. Proved reserves increased by 30 percent year-over-year to 6.5 million boe. Almost 75 percent of our total established reserves were in the proved-producing category, which represents the highest level of certainty and value. This was up from 48 percent at year-end 1999. Most of our proved non-producing reserves were from wells drilled late in 2000 and were not onstream by year-end. These wells were onstream in early 2001. The remaining portion of proved non-producing reserves are in the gas cap at our Two Creek property. Progress has essentially no proved undeveloped reserves (the lowest proved category for value and certainty of production).

Progress Energy's reserve life index, the amount of time it would take to produce all of our reserves, is a healthy 10.6 years, down from 1999's 11.5 years. Our reserve life index target is eight to nine years, meaning we have opportunities to further increase production rates from our existing reserve base.

The Company's recycle ratio was 2.01 for proved reserves in 2000, up by 50 percent from 1999. Progress Energy's cash netback, which is the realized product price less royalties, operating costs, general and administrative expenses, interest expenses and current taxes, was \$21.38 per boe of production in 2000, while the cost to replace that boe of production was \$10.65 in the same year. The difference is what remains for reinvestment to fund future growth.

[OPERATIONS REVIEW]

A healthy recycle ratio, such as the one Progress generated last year, is an indicator of strong prospects for continued growth. High realized product prices, low current expenses and low finding and development costs all contributed to Progress Energy's healthy recycle ratio.

A summary of our reserves by category and the associated reserve values as evaluated by Paddock Lindstrom and Associates Ltd. is presented below. For the purposes of reserve presentation, "established reserves" is the sum of total proved reserves and 50 percent of probable reserves. Barrel of oil equivalent (boe) calculations are based on a 10:1 conversion of natural gas to oil for reserve presentation only.

Reserve reconciliation	Oil and liquids (mbbl)			Natural gas (mmcf)			mboe		
	Proved	Probable	Total	Proved	Probable	Total	Proved	Probable	Total
December 31, 1999	3,081.1	996.7	4,077.9	19,232.0	10,816.2	30,048.3	5,004.3	2,078.3	7,082.6
Additions	1,348.0	261.0	1,609.0	7,034.0	(2,921.0)	4,113.0	2,051.4	(31.1)	2,020.3
Revisions	(471.4)	(13.0)	(458.4)	(3,169.6)	(1,966.3)	(5,135.9)	(154.5)	(209.5)	(55.0)
Production	(476.0)		(476.0)	(2,071.6)		(2,071.6)	(683.2)	(683.2)	
December 31, 2000	4,424.5	1,244.8	5,669.3	21,024.8	5,929.0	26,953.8	6,527.0	1,837.7	8,364.7

Reserve replacement ratio (mboe)	2000	1999	1998
Volumes of established reserves added	2,085.6	2,392.9	4,081.7
Production Volumes	683.2	431.2	323.0
Reserve replacement ratio	3.1	5.5	12.6

Reserve life index (mboe)	2000	1999	1998
Established reserves at December 31 (mboe)	7,445.8	6,043.5	4,081.7
Production volumes (mboe)	705.0	531.3	323.0
Reserve life index (years) ⁽¹⁾	10.6	11.4	12.6

⁽¹⁾ Based on annualized fourth quarter production volumes

Reserve recycle ratio	2000	1999	1998
Average cash flow from operations (\$/boe)	21.38	12.44	9.27
Finding costs			
Proved	10.65	9.30	5.70
Established	11.27	7.86	4.81
Reserve recycle ratio			
Proved	2.01	1.34	1.62
Established	1.90	1.58	1.93

Net present value of reserves	Oil and liquids	Natural gas	Total	Value (\$000s) Discounted at		
	(mmbbl)	(mmcf)	mboe	0%	10%	15%
Proved producing	3,944.7	16,096.2	5,554.3	116,389	75,768	65,613
Proved non-producing	452.5	4,928.6	945.4	24,703	10,480	8,307
Proved undeveloped	27.3		27.3	410	264	226
Total proved	4,424.5	21,024.8	6,527.0	141,502	86,512	74,146
Risked probable ⁽¹⁾	622.4	2,964.5	918.9	18,135	10,594	8,802
Established						
December 31, 2000	5,047.0	23,989.3	7,445.9	159,637	97,106	82,948
December 31, 1999	3,579.5	24,640.1	6,043.5	90,502	54,839	46,318
December 31, 1998	3,074.1	10,077.0	4,081.8	52,691	30,374	24,899

⁽¹⁾ Probable reserves have been reduced by 50% to allow for risk

Paddock Lindstrom price forecast	WTI at Cushing (\$US/bbl)	Light oil at Edmonton (\$CDN/bbl)	Natural gas at Henry Hub (US\$/mmbtu)	AECO C (\$CDN/mmbtu)
2001	27.00	39.91	5.25	7.35
2002	24.00	34.80	4.00	5.36
2003	23.00	32.78	3.75	4.89
2004	23.00	32.27	3.50	4.44
2005	23.46	32.43	3.57	4.45
2006	23.93	33.08	3.64	4.54
2007	24.41	33.74	3.71	4.63
2008	24.90	34.42	3.79	4.72
2009	25.39	35.11	3.86	4.82
2010	25.90	35.81	3.94	4.91
2011	26.42	36.52	4.02	5.01
2012	26.95	37.25	4.10	5.11
2013	27.49	38.00	4.18	5.21
2014	28.04	38.76	4.27	5.32
2015	28.60	39.53	4.35	5.43

FINDING AND DEVELOPMENT COSTS

Progress Energy's finding and development costs for 2000 were \$10.65 per proved boe of new reserves added (at 10:1 conversion), bringing our three-year average finding and development costs to \$8.30 per proved boe. These values include all revisions and onstream costs. Finding and development costs for established reserves (proved plus probable risked at 50 percent) were higher at \$11.27 per boe. This value is typically lower than the proved finding and development cost. The higher value occurred this year because we invested a lot of money into converting

[OPERATIONS REVIEW]

previously recognized probable reserves into proved-producing reserves and we did not proportionally add new probable reserves, leading to a reduction in probable reserves.

The year-over-year increase in finding and development costs occurred primarily due to higher costs to drill, complete and equip wells. This was a function of the high current industry activity rate, including a fully utilized labour force and equipment fleet. Other contributing factors included: negative revisions to our reserves in the Whitecourt field; investing money into further developing our existing reserves which deliberately lowers the reserve life index and increases our production rate and cash flow from our reserve base; and investing significant capital to install production batteries and gas facilities to improve production rates, and reduce future operating expenses.

Finding and onstream costs	2000	1999	1998	Three-year average
Total capital additions (\$ millions)	23.5	18.8	15.7	58.0
Reserve additions/revisions				
Proved reserves (mboe)	2,205.9	2,020.8	2,759.0	6,985.7
Probable reserves (mboe)	(240.6)	744.3	1,017.5	1,521.2
Total additions (mboe)	1,965.3	2,765.1	3,776.5	8,506.9
Reserve addition and onstream costs (\$/boe)				
Proved	10.65	9.30	5.70	8.30
Proved plus 50% probable (established)	11.27	7.86	4.81	7.49
Proved plus 100% probable	11.96	6.80	4.16	6.82

NET ASSET VALUE PER SHARE

A cornerstone of our financial foundation, and a key indicator of value from the shareholder's perspective, is the significant increase in our net asset value per share over the last three years. On a fully diluted basis and using a 15 percent discount factor, Progress Energy had a net asset value of \$4.01 per share on its future pretax cash flows at year-end 2000. This was up by 87 percent over the year-end 1999 value of \$2.14. At the end of 1997 the Company's net asset value was \$0.50 per share; the year-end 2000 figure represents an eight-fold increase in three years.

Our reserve value has appreciated by 79 percent to \$82.9 million from \$46.3 million in 1999. The increase is attributed to a larger reserves base, produced at higher production rates and valued by a higher price forecast due to the tight supply/demand scenario for energy. Details in deriving our net asset value per share is as follows:

Net asset value	Discount rates	
(\$ thousands except per share data)	10%	15%
Established reserves ⁽¹⁾	97,106	82,948
Undeveloped land ⁽²⁾	9,912	9,912
Seismic	2,000	2,000
Proceeds from stock options ⁽³⁾	2,102	2,102
Long-term debt and working capital	(21,926)	(21,926)
Net asset value	89,194	75,036
Common shares at year-end (thousands)	15,029	15,029
Fully diluted shares at year-end (thousands) ⁽⁴⁾	18,725	18,725
Net asset value per fully diluted share	4.76	4.01

⁽¹⁾ Reserves values are based on before tax estimates of future cash flows evaluated by Paddock Lindstrom and Associates Ltd.

⁽²⁾ Undeveloped land value as provided by Seaton Jordan and Associates

⁽³⁾ 1,356,250 options @ \$1.55 each

⁽⁴⁾ Common shares plus options plus 1,170,000 Class B shares that have been converted to common shares using a price of \$5.00 per common share at the assumed conversion date of January 2003

OPERATING NETBACKS

Strong commodity prices for both crude oil and natural gas, coupled with substantial gains in production during the year, were the main drivers for the increased operating netbacks achieved by Progress in 2000. Royalties as a percentage of sales remained the same as in 1999 at 23 percent. Reactivation of higher operating cost wells as a result of strong commodity prices and optimization and repairs to wells and facilities acquired through acquisitions led to the increase in operating costs during the year.

Operating netbacks			
\$ per boe (10:1 conversion)	2000	1999	1998 ⁽¹⁾
Average sales price	43.12	25.87	18.10
Average royalties	(9.98)	(5.83)	(2.68)
Average operating costs	(6.08)	(5.01)	(4.73)
Average netback	27.06	15.03	10.69
\$ per boe (6:1 conversion)	2000	1999	1998 ⁽¹⁾
Average sales price	35.84	21.32	18.10
Average royalties	(8.30)	(4.80)	(2.68)
Average operating costs	(5.05)	(4.13)	(4.73)
Average netback	22.49	(12.39)	10.69

⁽¹⁾ Progress had no natural gas production in 1998

[OPERATIONS REVIEW]

MARKETING

Progress employs the following principles with respect to marketing of our production:

- Maximize production from all properties;
- Maximize rates of take on production from producing properties;
- Maintain a balanced production mix between oil and natural gas, and
- Selectively employ financial instruments to secure future revenues and cash flow for reinvestment.

NATURAL GAS

Progress' natural gas production represented 30 percent of Progress Energy's total production mix and the Company took 97 percent of its natural gas production in-kind. Thirty-four percent of Progress Energy's natural gas production comes from British Columbia, 64 percent from Alberta and two percent from Saskatchewan. Progress sold 100 percent of its gas in British Columbia and in Alberta into the spot market and the Company plans to continue selling its natural gas production through these marketing arrangements for the foreseeable future.

Progress hedged 1,250 GJ per day of production at an average price of \$3.68 per GJ for the period of November 1999 to March 2000. During the summer season of 2000 (April 1, 2000 to October 31, 2000), Progress hedged 1,500 GJ per day at an average price of \$3.67 per GJ. For the winter season of 2000/01 (November 1, 2000 to March 31, 2001), Progress has purchased a put option that will provide a floor price of \$5.52 per GJ on 2,000 GJ per day for a cost of \$0.20 per GJ. Progress Energy's natural gas risk management resulted in a \$391,000 charge that was offset against petroleum and gas revenues.

CRUDE OIL AND LIQUIDS

Crude oil and liquids represented 70 percent of Progress Energy's production mix during the year and the Company took over 95 percent of its production in-kind. Thirty percent of the Company's crude oil and liquids production is based in Alberta, 56 percent in Saskatchewan and 14 percent in Manitoba. The Company's average oil gravity continues to remain around 32° API and the Company enjoys close proximity to sales terminals for the majority of its production.

During the first quarter of 2000, Progress incurred a loss of \$190,000 as a result of hedging crude oil production. During this period, Progress had a contract in place to hedge 200 bbls per day of crude oil at a price of CDN\$31.29. For the balance of the year, Progress did not employ any financial instruments with respect to its crude oil production. During the first quarter of 2001, Progress has a call option in place to sell 800 bbls per day at a ceiling price of US\$35.00 per bbl and during the second quarter of 2001 the Company has a put option in place to sell 1,000 bbls per day at a floor price of US\$27.50 per bbl. The net cost of this call/put option arrangement to Progress was approximately CDN\$87,000. The benefits will occur in the second quarter as the current oil price is below our put option or floor of \$27.50.

[MANAGEMENT'S DISCUSSION AND ANALYSIS]

The following discussion and analysis provided by the management of Progress Energy Ltd. should be read in conjunction with the financial statements presented in this annual report.

For the purposes of this discussion and analysis, natural gas has been converted to an oil equivalent on a 10:1 basis for all barrel of oil equivalent (boe) calculations. Natural gas has also been converted to an oil equivalent on a 6:1 basis for these calculations and is shown in brackets after the 10:1 equivalent. Both conversion methods yield the same results in 1998 because the Company had no gas production.

OIL, LIQUIDS AND NATURAL GAS REVENUES

Revenues from crude oil, liquids and natural gas sales increased by 165 percent to \$29.6 million in 2000 from \$11.2 million in 1999. This increase resulted from substantial oil, liquids and natural gas production growth and strong commodity prices.

Oil and liquids production for the year increased 62 percent to 1,303 bbls per day from 803 bbls per day in 1999. Natural gas production increased 51 percent to 5,718 mcf per day in 2000 from 3,784 mcf per day in 1999. Average pricing for oil and liquids increased 66 percent to \$40.44 per bbl in 2000 from \$24.38 per bbl in 1999. Natural gas pricing for the year increased 69 percent to \$4.92 per mcf from \$2.91 per mcf in 1999.

Volumes	2000	1999	1998
Oil and liquids (bbls)	477,052	293,147	239,256
Natural gas (mcf)	2,092,678	1,380,998	-
Oil and liquids (bbls/d)	1,303	803	655
Natural gas (mcf/d)	5,718	3,784	-
Boe/d 10:1 conversion	1,875	1,181	655
Boe/d 6:1 conversion	2,256	1,434	655

Revenues (\$000s)	2000	1999	1998
Oil and liquids	19,292	7,146	4,331
Natural gas	10,301	4,014	-
Average sales price oil and liquids (\$/bbl)	40.44	24.38	18.10
Average sales price natural gas (\$/mcf)	4.92	2.91	-

ROYALTIES

Royalties increased 176 percent to \$6.9 million in 2000 from \$2.5 million in 1999 due to increased production and increased commodity prices. The average royalty rate, as a percentage of sales, was 23 percent for both 2000 and 1999. Progress benefits from certain Crown royalty and mineral tax reduction programs in both Saskatchewan and Manitoba, and all of the Company's Alberta oil production qualifies for third tier Crown royalty rates.

[MANAGEMENT'S DISCUSSION AND ANALYSIS]

Royalties	2000	1999	1998
Royalties (\$000s)	6,851	2,514	642
Average cost (\$/boe 10:1 conversion)	9.98	5.83	2.68
Average cost (\$/boe 6:1 conversion)	8.30	4.80	2.68
Percentage of oil, liquids and gas revenues	23%	23%	15%

OPERATING COSTS

Progress continues to operate all of its major properties, representing 80 percent of its total production. Operating costs, as a percentage of oil, liquids and natural gas revenue, decreased to 14 percent in 2000 from 19 percent in 1999. This decrease is mainly attributable to the higher average oil, liquids and natural gas prices received in 2000. On a per unit basis, the average operating cost increased 21 percent to \$6.08 during the year from \$5.01 in 1999 (\$5.05 in 2000, \$4.13 in 1999 on a 6:1 basis). Progress reactivated numerous wells with higher operating costs as a result of the strong commodity prices throughout the year and incurred additional operating costs to repair and optimize wells and facilities acquired through acquisitions in late 1999 and in July 2000.

Operating costs	2000	1999	1998
Operating costs (\$000s)	4,170	2,162	1,132
Average cost (\$/boe 10:1 conversion)	6.08	5.01	4.73
Average cost (\$/boe 6:1 conversion)	5.05	4.13	4.73
Percentage of oil, liquids and gas revenues	14%	19%	26%

GENERAL AND ADMINISTRATIVE EXPENSES

Gross general and administrative expenses (G&A) increased 57 percent in 2000 to \$2.2 million from \$1.4 million in 1999. This was mainly due to the increase in full-time and contract staff required to meet the increasing size of the Company's operations. However, increased production rates during the year resulted in gross G&A decreasing one percent on a boe basis to \$3.27 in 2000 from \$3.31 in 1999 (\$2.72 in 2000, \$2.73 in 1999 on a 6:1 basis).

Net G&A increased 40 percent to \$0.7 million in 2000 from \$0.5 million in 1999. On a boe basis, net G&A decreased 23 percent to \$0.97 for the year from \$1.26 in 1999 (\$0.80 in 2000, \$1.04 in 1999 on a 6:1 basis). This change reflected increased operator recoveries from high operatorship of the Company's properties and an increased capital program. For accounting purposes, Progress capitalizes G&A expenses associated with the Company's exploration and development activities.

General and administrative expenses (\$000s)	2000	1999	1998
Gross G&A	2,245	1,426	1,036
Operator recoveries	(1,019)	(488)	(414)
Capitalized expenses	(562)	(394)	(346)
Net G&A	664	544	276
Net G&A (\$/boe 10:1 conversion)	0.97	1.26	1.16
Net G&A (\$/boe 6:1 conversion)	0.80	1.04	1.16

INTEREST INCOME AND EXPENSE

Net interest expense increased 200 percent to \$0.9 million in 2000 from \$0.3 million in 1999, due to the increased average debt levels associated with the 2000 capital program. The Company's long-term debt at December 31, 2000 was \$16.4 million.

Net interest expense (\$000s)	2000	1999	1998
Interest income	—	(2)	(145)
Interest expense	946	341	39
Net interest expense	946	339	105
Net interest expense (\$/boe 10:1 conversion)	1.38	0.79	0.44
Net interest expense (\$/boe 6:1 conversion)	1.15	0.65	0.44

DEPLETION AND DEPRECIATION

During 2000, depletion and depreciation of capital assets and the provision for site restoration and abandonments increased 74 percent to \$5.9 million from \$3.4 million in 1999. This increase resulted from substantial capital spending on developing existing reserves that led to increased production volumes during the year and that reduced the Company's reserve life index to levels more appropriate for the industry.

Depletion and depreciation (\$000s)	2000	1999	1998
Oil and gas depletion and depreciation	5,350	3,107	1,620
Provision for site restoration	513	266	66
Other depreciation	50	38	20
Total depletion and depreciation	5,913	3,411	1,706
Depletion and depreciation (\$/boe 10:1 conversion)	8.62	7.91	7.13
Depletion and depreciation (\$/boe 6:1 conversion)	7.16	6.52	7.13

[MANAGEMENT'S DISCUSSION AND ANALYSIS]

CEILING TEST

In accordance with the Canadian Institute of Chartered Accountants' full cost accounting guidelines, Progress performs an annual "ceiling test" calculation using commodity prices from the last business day of the year. The Company also performs quarterly "ceiling test" calculations using prices received for product sales during the last month of each quarter. No writedown was required for the year ended December 31, 2000 based on year-end commodity prices of \$38.71 per bbl for crude oil and \$12.73 per mcf for natural gas. Based on increased reserves and year-end commodity prices of \$36.09 per bbl for oil and \$2.85 per mcf for natural gas, no writedown was required in 1999.

INCOME AND CAPITAL TAXES

Income taxes (future and current) increased 411 percent in 2000 to \$4.6 million from \$0.9 million in 1999. Progress Energy's effective tax rate increased to 42 percent in 2000 from the prior year's 40 percent. Increased pre-tax income that resulted from substantial gains in production volumes and commodity prices contributed to the increase in income taxes. Renouncements of \$15.5 million of tax pools to flow-through shareholders over the past three years also affected the Company's ability to shelter its pre-tax income. The foregoing also resulted in the Company becoming cash taxable for the first time since its inception. Consequently, Progress has recorded a provision for \$1.8 million in current income taxes for the year ended December 31, 2000.

Capital taxes increased to \$0.5 million in 2000 from \$0.2 million in 1999. This continues to reflect the Company's larger size and the increase in the Saskatchewan resource surcharge that is associated with higher production from Southeast Saskatchewan.

The Company has approximately \$32.4 million in tax pools to shelter taxable income in future years. Progress anticipates that it will be cash taxable in 2001, based on both the continued strength of commodity prices and the Company's budgeted increase in production volumes.

Income and capital taxes (\$000s)	2000	1999	1998
Future income taxes	2,821	884	192
Current income taxes	1,824	-	-
Capital taxes	534	234	168
	5,179	1,118	360
Effective tax rate	42%	40%	28%

Tax pools (\$000s)	2000
Cumulative Canadian Oil and Gas Property Expense (COGPE)	14,284
Cumulative Canadian Development Expense (CDE)	6,393
Undepreciated Capital Costs (UCC)	11,298
Other	423
Total	32,398

CASH FLOW AND NET EARNINGS

Higher production volumes and commodity prices resulted in a 170 percent increase in cash flow from operations which totalled \$14.6 million in 2000 versus \$5.4 million in 1999. On a per boe basis, cash flow from operations increased 71 percent to \$21.28 from \$12.44 in 1999 (\$17.68 in 2000, \$10.26 in 1999 on a 6:1 basis). Cash flow from operations per common share, before conversion of class B shares, increased to \$0.97 in 2000 from the prior year's \$0.39. After allowing for conversion of class B shares as described in note 4 of the financial statements, basic cash flow per share increased to \$0.76 in 2000 from \$0.29, while cash flow per share on a diluted basis was considerably higher in 2000 at \$0.71 compared to \$0.27.

Net earnings increased 436 percent to \$5.9 million in 2000 from \$1.1 million in 1999. For the respective years, this translates into earnings per common share, before conversion of class B shares, of \$0.39 versus \$0.08. After allowing for conversion of class B shares as described in note 4 of the financial statements, basic earnings per share increased to \$0.30 from \$0.06 and diluted earnings per share were \$0.29 versus \$0.06.

Net earnings for 2000 represented 40 percent of cash flow from operations in 2000 compared to 20 percent in 1999. Based on the December 31, 2000 closing price of its common shares of \$2.75, Progress Energy's trailing annualized diluted price/earnings ratio was 9.48:1.

Cash flow and net earnings (\$/boe)	10:1 Conversion			6:1 Conversion		
	2000	1999	1998	2000	1999	1998
Oil, liquids and natural gas revenues	43.12	25.87	18.10	35.84	21.32	18.10
Royalties	(9.98)	(5.83)	(2.68)	(8.30)	(4.80)	(2.68)
Operating expenses	(6.08)	(5.01)	(4.73)	(5.05)	(4.13)	(4.73)
Net operating income	27.06	15.03	10.69	22.49	(12.39)	10.69
General and administrative	(0.97)	(1.26)	(1.16)	(0.80)	(1.04)	(1.16)
Interest income (expense)	(1.38)	(0.79)	0.44	(1.15)	(0.65)	0.44
Current income taxes	(2.66)	—	—	(2.21)	—	—
Capital taxes	(0.78)	(0.54)	(0.70)	(0.65)	(0.44)	(0.70)
Cash flow from operations	21.28	12.44	9.27	17.68	10.26	9.27
Depletion and depreciation	(8.62)	(7.91)	(7.13)	(7.16)	(6.52)	(7.13)
Future taxes	(4.11)	(2.05)	(0.80)	(3.42)	(1.69)	(0.80)
Net earnings	8.55	2.48	1.34	7.10	2.05	1.34

[MANAGEMENT'S DISCUSSION AND ANALYSIS]

LIQUIDITY AND CAPITAL RESOURCES

Progress financed its 2000 capital program mainly through a combination of cash flow from operations and debt. At year-end 2000, Progress Energy had borrowed \$16.4 million on its \$25.0 million demand revolving/reducing credit facility. This loan facility is subject to a semi-annual and annual review by the lender and requires no principal repayments provided certain covenants are met with respect to asset coverage tests. During Progress Energy's last review in December 2000, these asset coverage tests were met and the Company's loan facility was increased to \$25 million.

The Company's working capital deficit at year-end 2000 was \$5.5 million. This related to the start of the Company's winter drilling program in late November 2000 when 12 of 33 wells were drilled.

Debt to cash flow ratio (\$000s)	2000	1999	1998
Working capital deficit	5,517	2,951	2,682
Long-term debt	16,409	9,418	—
Total debt	21,926	12,369	2,682
Cash flow from operations	14,604	5,367	2,219
Debt to cash flow ratio	1.5:1	2.3:1	1.2:1
Annualized December cash flow from operations	19,635	8,925	3,406
Debt to cash flow ratio	0.9:1	1.4:1	0.8:1

The Company's 2000 capital expenditure program included internally generated exploration and development projects, with the largest projects located in the Milo and Two Creek core areas. The Company also made several property acquisitions during the year. The largest, in Southeast Saskatchewan, was for approximately \$2.3 million.

In March 2000, Progress received approval from the Canadian Venture Exchange to make a Normal Course Issuer Bid to acquire a maximum of 746,100 common shares and 115,725 class B shares over the course of a 12-month period beginning March 30, 2000. At year-end 2000, Progress had acquired 394,800 common shares and 900 class B shares for a total value of \$1.0 million.

Capital program (\$000s)	2000	1999	1998
Capital expenditures			
Land acquisitions and retention	1,020	440	1,046
Geological and geophysical	1,322	791	862
Drilling and completions	12,606	6,989	8,742
Equipping and facilities	4,917	5,650	1,605
Property acquisitions/dispositions	3,552	4,822	3,305
Other	77	110	154
	23,494	18,802	15,714
Funded by			
Cash flow from operations	14,604	5,367	2,219
Working capital	2,566	269	10,093
Long-term debt	6,991	9,418	–
Equity (net of share repurchases)	(667)	3,748	3,402
	23,494	18,802	15,714

BUSINESS RISKS

Progress Energy's operations are exposed to a number of risks that could have significant impact on the Company's ability to conduct its business. These risks include:

- The instability of commodity prices, foreign exchange rates and interest rates;
- Replacing annual production and finding new reserves on an economic basis;
- The risk of damage to the Company's equipment and the liability associated with an occurrence or malfunction;
- The risk of inflation and supply of services and equipment that can impact operating netbacks, increase finding costs and affect the Company's ability to produce reserves in an economic and timely manner, and
- The environmental and safety impact of the Company's operations.

[MANAGEMENT'S DISCUSSION AND ANALYSIS]

Progress employs a number of key strategies to manage the impact of these risks on its operations. These strategies include:

- Employing highly trained and competent management and staff;
- Focusing on select core areas that are well understood by management and staff;
- Diversifying investment opportunities to include low risk development projects, moderate risk exploration plays and strategic acquisitions;
- Balancing product mix so the Company's revenue stream is not subject to the volatility of any one commodity;
- Employing financial instruments to protect the downside risk of commodity prices;
- Working closely with key suppliers to ensure services are available when required;
- Maintaining an insurance program to protect against losses due to accidental destruction of assets, well blowouts, pollution and certain business interruptions;
- Maintaining and surpassing compliance with all current environmental legislation and working with government agencies to maintain this level of compliance;
- Extensively monitoring factors that influence cash flow and responding proactively to any potentially detrimental impact on cash flow, and
- Maintaining debt levels within Progress Energy's self-imposed guidelines.

OUTLOOK

Progress believes commodity prices for both oil and gas will remain relatively strong in 2001. While a reduction in prices from levels experienced during the latter months of 2000 is anticipated, the Company's 2001 budget is based on an average crude oil price of US\$27.00 WTI per bbl and an average natural gas price of CDN\$6.90 AECO per gigajoule. Based on these prices, Progress Energy's planned capital budget for 2001 is approximately \$30.0 million, which will be funded primarily through cash flow from operations and the Company's loan facility. The budget is periodically reviewed by the Board of Directors during the year and levels are amended when necessary. The Company may utilize financial instruments from time to time to mitigate the risks of commodity price fluctuations. Any use of financial instruments is subject to review and approval by the Board of Directors.

[MANAGEMENT'S REPORT]

The financial statements of Progress Energy Ltd. were prepared by management in accordance with Canadian generally accepted accounting principles. The financial and operating information presented in this annual report is consistent with that shown in the financial statements.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors appointed by the shareholders have examined the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these financial statements with the external auditors and management and has reported to the Board of Directors. The Board has approved the financial statements.



KENNETH J. BOWIE
President & CEO
March 23, 2000



WILLIAM J. LEWINGTON
Chief Financial Officer

[AUDITORS' REPORT]

We have audited the balance sheets of Progress Energy Ltd. as at December 31, 2000 and 1999 and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Calgary, Alberta
March 15, 2001

[BALANCE SHEETS]

(\$ thousands) As at December 31,	2000	1999
ASSETS		
Current		
Cash and short-term investments	\$ 68	\$ —
Accounts receivable	7,818	2,759
Deposits and prepaids	493	260
	8,379	3,019
Property, plant and equipment (Note 2)	56,946	38,852
Total Assets	\$ 65,325	\$ 41,871
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 11,820	\$ 5,868
Income and other taxes payable	2,076	102
	13,896	5,970
Long-term debt (Note 3)	16,409	9,418
Site restoration and abandonment	847	334
Future income taxes (Note 5)	10,373	7,536
	41,525	23,258
SHAREHOLDERS' EQUITY		
Share capital (Note 4)	17,156	17,214
Retained earnings	6,644	1,399
	23,800	18,613
Total liabilities and shareholders' equity	\$ 65,325	\$ 41,871

Commitments (Note 8)

See accompanying notes to the financial statements

Approved on behalf of the Board:


Kenneth J. Bowie
Director

Gary E. Perron
Director

[STATEMENTS OF EARNINGS AND RETAINED EARNINGS]

(\$ thousands) Year ended December 31,	2000	1999
REVENUES		
Petroleum and natural gas	\$ 29,593	\$ 11,160
Royalties	(6,851)	(2,514)
Interest	-	2
	22,742	8,648
EXPENSES		
Operating	4,170	2,162
General and administrative	664	544
Interest	946	341
Depletion and depreciation	5,913	3,411
	11,693	6,458
Earnings before taxes	11,049	2,190
Taxes		
Capital taxes	534	234
Current income taxes (Note 5)	1,824	-
Future income taxes (Note 5)	2,821	884
	5,179	1,118
Net earnings	5,870	1,072
Retained Earnings, beginning of period	1,399	327
Redemption of shares	(625)	-
Retained earnings, end of period	\$ 6,644	\$ 1,399
Net earnings per share (Note 4)		
Per common share	\$ 0.39	\$ 0.08
Basic	\$ 0.30	\$ 0.06
Diluted	\$ 0.29	\$ 0.06

See accompanying notes to the financial statements

[STATEMENTS OF CASH FLOWS]

(\$ thousands) Year ended December 31,	2000	1999
Cash provided by (used in):		
OPERATIONS		
Net earnings	\$ 5,870	\$ 1,072
Depletion and depreciation	5,913	3,411
Future income taxes	2,821	884
Cash flow provided by operations	14,604	5,367
Net change in non-cash working capital (Note 6)	2,634	(1,723)
	17,238	3,644
FINANCING		
Increase in long-term debt	6,991	9,418
Issue of shares	302	3,748
Redemption of shares	(969)	–
	6,324	13,166
INVESTING		
Capital asset additions	(23,494)	(18,802)
Increase (decrease) in cash	68	(1,992)
Cash and short term investments, beginning of period	–	1,992
Cash and short term investments, end of period	\$ 68	\$ –
Cash flow from operations per share (Note 4)		
Per common share	\$ 0.97	\$ 0.39
Basic	\$ 0.76	\$ 0.29
Diluted	\$ 0.71	\$ 0.28

See accompanying notes to the financial statements

[NOTES TO FINANCIAL STATEMENTS]

December 31, 2000 and 1999

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Progress Energy Ltd. (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized below.

a) Cash and short term investments

Cash and short term investments consists of cash in the bank, less outstanding cheques and short term deposits with a maturity of less than three months.

b) Oil and natural gas operations

The Company follows the full cost method of accounting for petroleum and natural gas operations. All costs related to the acquisition of exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges of non-producing property, costs of drilling both productive and non-productive wells, petroleum and natural gas production equipment and overhead charges related to exploration and development activities.

Proceeds from the disposition of oil and gas properties are credited to the capitalized costs except for dispositions, which would significantly alter the rate of depletion and depreciation, in which case a gain or loss would be recorded.

c) Depletion and depreciation

Capitalized costs in each cost centre, together with estimated future capital costs associated with proven reserves, are depleted and depreciated using the unit-of-production method based on gross proven reserves of petroleum and natural gas as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on relative energy content. Costs of significant unproved properties are excluded from the depletion calculation.

In applying the full cost method, the Company restricts the capitalized costs less accumulated depletion and depreciation, future income taxes and the accumulated provision for future site restoration costs to an amount equal to estimated future net revenues from proven reserves, based on year-end prices and costs, plus unproved properties. Estimated future capital costs, recurring general and administrative expenses, future financing costs, future site restoration costs, and income taxes are deducted in determining future net revenues. Any costs carried on the balance sheet in excess of the ceiling test limits are charged to current operations as additional depletion.

A provision for future site restoration costs is calculated using the unit of production method. Costs are estimated each year by management based upon current regulations and industry practices. The annual charge is recorded as additional depletion and depreciation. Actual costs incurred are charged against the accumulated liability.

Office equipment is recorded at cost and is depreciated over the useful life of the assets on a declining balance basis at 20%.

d) Joint operations

Substantially all of the exploration and production activities are conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

e) Financial instruments

The Company uses derivative financial instruments from time to time to hedge its exposure to commodity price and foreign exchange fluctuations. Most of the transactions are related to an underlying physical position or to future oil and natural gas production and this hedging relationship is, or is expected to be, effective. Derivative financial instruments not designated as hedges are recorded at fair value at inception and changes in the fair value are recognized in earnings.

Gains and losses on financial instruments designated as hedges are deferred and are recognized in the period and in the same financial category in which the revenues or expenses associated with the hedged transactions are recognized.

Premiums paid on the purchase of put options are deferred and amortized over the life of the contract. Premiums received on the sale of call options are recorded as liabilities and changes in the fair value of the liabilities are recognized in earnings.

f) Measurement uncertainty

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

g) Income taxes

The Company follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

h) Flow-through shares

The resource expenditure deductions for income tax purposes relate to exploratory and development activities funded by flow-through share arrangements and are renounced to investors in accordance with income tax legislation. An estimate of the additional tax liability to be incurred and included in the future tax provision is recognized and charged to share capital at the time the resource expenditure deductions for income tax purposes are renounced to investors.

i) Stock based compensation plan

Consideration paid by directors, officers and employees on the exercise of stock options under the stock option plan is recorded as share capital. No compensation expense is recognized with respect to stock options as the exercise price equals the market price of shares on the date of the grant.

j) Earnings and cash flow per share

In 2000, the Company adopted the new accounting policy for calculation and presentation of earnings and cash flow per share in accordance with recommendations of the Canadian Institute of Chartered Accountants. The new policy has been adopted retroactively and 1999 cash flow from operations changed to \$0.28 per share from \$0.27 per share on a diluted basis.

k) Comparative figures

Certain prior period amounts have been reclassified to conform with the current period's presentation.

2. PROPERTY, PLANT AND EQUIPMENT

(\$ thousands)	2000	1999
Petroleum and natural gas properties	66,777	43,360
Other assets	380	303
	67,157	43,663
Accumulated depletion and depreciation	(10,211)	(4,811)
Net book value	\$ 56,946	\$ 38,852

During the year ended December 31, 2000, the Company capitalized \$562 thousand (1999 - \$395 thousand) of general and administrative expenses related to exploration and development activities. As at December 31, 2000, the depletion calculation excluded unproved properties of \$3.7 million (December 31, 1999 - \$3.4 million).

As at December 31, 2000, the Company estimated its future site restoration costs to be \$5.3 million (December 31, 1999 - \$4.1 million).

3. LONG-TERM DEBT

(\$ thousands)	2000	1999
Direct advances	\$ -	\$ 364
Bankers' acceptances	16,409	9,054
Long-term debt	\$ 16,409	\$ 9,418

The Company has a financing arrangement with a Canadian chartered bank in the form of a revolving/reducing demand credit facility. Borrowing is available by way of direct advances or bankers' acceptances and bears interest at the bank's prime rate or current bankers' acceptance rates plus a 1.25 percent stamping fee respectively. The credit facility is secured by a \$50 million fixed and floating charge debenture on the assets of the Company and it is

subject to a semi-annual and annual review by the lender and requires no principal repayments provided certain covenants are met with respect to asset coverage tests. These asset coverage tests were met by the Company during the last review in December 2000, at which time the maximum borrowing under this facility was increased to \$25 million. The bank has confirmed that no principal repayment of the facility will be required before January 1, 2002, provided that the Company continues to satisfy the provisions of the credit agreement and maintains an adequate borrowing base. Accordingly, the debt was classified as long-term in the financial statements.

4. SHARE CAPITAL

a) Authorized:

Unlimited number of voting Common Shares, without par value. Unlimited number of voting Class B Common Shares, convertible (at the option of the Company) at any time after December 31, 1999 and before December 31, 2002, into Common Shares. The fraction is calculated by dividing \$10 by the greater of \$1 and the current market price of Common Shares. If conversion has not occurred by the close of business on December 31, 2002, the Class B Shares will be deemed to be converted into Common Shares on the same basis effective on January 31, 2003.

b) Issued:

Common Shares	Number	Amount (\$ thousands)
Balance at December 31, 1998	13,602,000	\$ 7,854
For cash, pursuant to flow-through private placement	670,000	1,997
For cash, pursuant to private placement	650,000	1,787
Share issue expense net of tax effect of \$16,337	—	(20)
Tax effect on flow-through shares renounced	—	(891)
Balance at December 31, 1999	14,922,000	\$ 10,727
Issued on exercise of stock options	485,000	257
For cash, pursuant to flow-through private placement	12,500	35
For cash, pursuant to private placement	4,000	10
Tax effect on flow-through shares renounced	—	(16)
Redemption of shares	(394,800)	(340)
Balance at December 31, 2000	15,028,700	\$ 10,673
Class B Shares		
Balance at December 31, 1998	1,170,900	\$ 7,697
Tax effect on flow-through shares renounced	—	(1,210)
Balance at December 31, 1999	1,170,900	\$ 6,487
Redemption of shares	(900)	(4)
Balance at June 30, 2000	1,170,000	\$ 6,483
Total capital stock		\$ 17,156

c) Issue and redemption/cancellation of shares:

On September 22, 2000, the Company issued, on a private placement basis to an employee of the Company, 4,000 Common Shares and 12,500 flow-through Common Shares for a total consideration of \$45 thousand.

During the year, 485,000 Common Shares were issued on the exercise of stock options by employees and directors of the Company. Total consideration was \$257 thousand.

During the period from March 30, 2000 to December 31, 2000, the Company purchased and cancelled 394,800 Common Shares and 900 Class B Shares for a total consideration of \$969 thousand pursuant to the normal course issuer bid approved by the Canadian Venture Exchange. Of the total consideration, \$344 thousand, being the adjusted cost base of the shares for the Company, was charged to share capital and the balance of \$625 thousand was charged to retained earnings. The normal course issuer bid was eligible to commence on March 30, 2000 and allows the Company to purchase up to 746,100 Common Shares and 115,725 Class B Shares until March 29, 2001.

d) Flow-through share expenditures:

Pursuant to the September 20, 2000 flow-through share offering, the Company has incurred and renounced \$35 thousand of qualifying expenditures effective December 31, 2000.

Pursuant to the 1997 flow-through share offerings totalling \$11.7 million, the Company has incurred and renounced 100 percent of qualifying expenditures as at December 31, 1999. Of the total qualifying expenditures, \$2.7 million was renounced effective December 31, 1999.

Pursuant to the November 26, 1999 and December 31, 1999 flow-through share offerings, the Company has incurred and renounced \$2 million of qualifying expenditures effective December 31, 1999.

e) Stock options:

The Company has established a stock option plan (the "Plan") whereby directors, officers and employees are eligible to be granted options to purchase Common Shares. The Plan provides for the granting of up to 10 percent of the issued and outstanding Common Shares of the Company. As at December 31, 2000, the Company could grant up to 1,502,870 options.

The following table sets forth a reconciliation of stock options granted, exercised and cancelled:

	Number of options	Weighted average exercise price	Number exercisable at year-end	Weighted average exercise price
Balance, December 31, 1998	1,000,000	\$ 0.58	68,750	\$ 0.50
Granted	346,250	1.99		
Balance, December 31, 1999	1,346,250	\$ 0.95	701,250	\$ 0.59
Granted	605,000	2.23		
Exercised	(485,000)	0.53		
Cancelled	(110,000)	2.40		
Balance, December 31, 2000	1,356,250	\$ 1.55	471,563	\$ 1.06

The following table sets forth information related to stock options outstanding at December 31, 2000:

Range of exercise price outstanding	Option outstanding			Options exercisable	
	Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number	Weighted average exercise price
\$0.50 - \$1.87	661,250	2.32	\$ 0.89	359,063	\$ 0.70
\$2.00 - \$2.70	695,000	4.05	2.18	112,500	2.20
	1,356,250	3.21	\$ 1.55	471,563	\$ 1.06

f) Earnings and cash flow per share:

Earnings and cash flow per Common Shares are calculated using the weighted average number of Common Shares outstanding during the period. This calculation does not include conversion of the Class B Shares or stock options. At December 31, 2000 the weighted average number of Common Shares outstanding was 15,060,286 (1999 – 13,730,274).

“Basic” earnings and cash flow per share are calculated using the weighted average number of Common Shares and Class B Shares outstanding during the period. The Common Shares and Class B Shares are considered in aggregate due to the equal participation rights of these shares. At December 31, 2000, the closing trading price on the CDNX of the Common Shares of \$2.75 (December 31, 1999 - \$2.50) was used to convert the Class B Shares to Common Shares for the purposes of determining the weighted average number of shares for basic per share calculations. At December 31, 2000, the weighted average number of shares outstanding of 19,316,807 (December 31, 1999 – 18,413,874) was used for basic per share calculations.

“Diluted” earnings and cash flow per share are calculated using the treasury stock method that assumes any proceeds received by the Company upon the exercise of in-the-money stock options would be used to buy back Common Shares at the average market price for the period. As with the basic per share calculations, the Common Shares and Class B Shares are considered in aggregate, however, the average price of Common Shares traded on the CDNX through out the year of \$2.38 (1999 - \$2.41) was used to convert the Class B Shares to Common Shares instead of the closing trading price at year-end. At December 31, 2000, the weighted average number of shares outstanding of 20,569,743 (December 31, 1999 - 19,106,711) was used for diluted per share calculations.

5. INCOME TAXES

a) Future income taxes

(\$ thousands)	2000	1999
Excess of carrying value of capital assets over tax basis	\$ 10,934	\$ 7,068
Site restoration allowance	(378)	(149)
Recognition of benefits of share issue costs	(183)	(274)
Flow-through share renuncements to be incurred in the following year	—	891
	\$ 10,373	\$ 7,536

b) Income tax expense (current and future)

(\$ thousands)	2000	1999
Net income before taxes	\$ 11,049	\$ 2,190
Expected income tax at 44.6%	4,928	977
Add (deduct):		
Non-deductible Crown charges	2,272	745
Resource allowance	(2,485)	(764)
Other	(70)	(74)
	\$ 4,645	\$ 884

As at December 31, 2000, the Company had approximately \$32.4 million (December 31, 1999 - \$23.4 million) of tax pools available to reduce future income taxes.

6. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in non-cash working capital

(\$ thousands)	2000	1999
Accounts receivable	\$ (5,059)	\$ (1,100)
Deposits and prepaids	(233)	(144)
Accounts payable and accrued liabilities	7,926	(479)
	\$ 2,634	\$ (1,723)

b) Cash interest and taxes paid

(\$ thousands)	2000	1999
Cash interest paid	957	370
Cash income and other taxes paid	384	260

7. FINANCIAL INSTRUMENTS

The fair values of financial assets and liabilities that are included in the balance sheet approximate their carrying amounts due to the short-term maturity of those instruments.

Substantially all of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

The Company uses various types of financial instruments to reduce its exposure commodity prices. The Company manages its exposure to commodity price risk through the use of physical product and price swap arrangements.

The Company has entered into several short-term arrangements for both oil and natural gas. For the year ended December 31, 2000, the Company realized a net loss of \$581 thousand (December 31, 1999 - \$132 thousand) on its oil and natural gas price risk management. Below is the summary of outstanding contract positions as at December 31, 2000.

Contract	Volume	Strike price	Term	Premium received (paid) (\$ thousands)
AECO put option	2,000 GJ/d	CDN\$5.52/GJ	Nov 1/00 – Mar 31/01	\$ (36)
NYMEX put option	1,000 bbl/d	US\$27.50/bbl	Apr 1/01 – Jun 30/01	\$ (180)
NYMEX call option	800 bbl/d	US\$35.00/bbl	Jan 1/01 – Mar 31/01	\$ 93

Based on the commodity prices at year end and the forward price curves, the fair value of the option contracts listed above is nominal.

8. COMMITMENTS

The Company has certain lease commitments for its office premises through to November 30, 2002. As at December 31, 2000, the payments due under these commitments are as follows:

Year	Commitment (\$ thousands)
2001	\$ 153
2002	\$ 113

[SELECTED 2000 AND 1999 QUARTERLY INFORMATION]

	2000				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
FINANCIAL								
(\$000s except per share data)								
Gross revenue	5,240	6,910	7,954	9,489	1,324	2,507	3,001	4,330
Cash flow from operations	2,628	3,892	3,871	4,213	546	1,127	1,478	2,216
Per common share ⁽¹⁾	0.18	0.25	0.26	0.28	0.04	0.08	0.11	0.16
Basic per share ⁽²⁾	0.13	0.20	0.19	0.22	0.03	0.06	0.08	0.12
Diluted per share ⁽²⁾	0.12	0.19	0.19	0.21	0.03	0.06	0.08	0.11
Net earnings	733	1,323	1,634	2,180	74	98	368	532
Per common share ⁽¹⁾	0.05	0.09	0.11	0.15	0.01	0.01	0.03	0.04
Basic per share ⁽²⁾	0.04	0.07	0.08	0.11	0.00	0.01	0.02	0.03
Diluted per share ⁽²⁾	0.03	0.06	0.08	0.11	0.00	0.01	0.02	0.03
OPERATIONS								
Crude oil and liquids production (bbls/d)	1,134	1,275	1,363	1,440	883	726	679	922
Crude oil and liquids price (\$/bbl)	37.01	37.24	42.49	43.98	15.99	20.04	28.78	31.14
Natural gas production (mcf/d)	4,942	6,904	6,189	4,840	244	5,440	4,178	5,213
Natural gas price (\$/mcf)	3.16	4.12	4.61	8.23	2.36	2.39	3.13	3.29

⁽¹⁾ Cash flow and net earnings per common share excludes conversion of Class B shares to common shares.

⁽²⁾ Quarterly per share amounts may not add to annual per share amounts due to method used to calculate weighted average shares outstanding at the end of each period (see note 4 of the financial statements).

ABBREVIATIONS

API	American Petroleum Institute	GJ	gigajoule
CDN	Canadian	mbbls	thousand barrels
NYMEX	New York Mercantile Exchange	mboe	thousand barrels of oil equivalent
US	United States	mmboe	million barrels of oil equivalent
WTI	West Texas Intermediate	mcf	thousand cubic feet
bbl	barrel	mcf/d	thousand cubic feet per day
bbls/d	barrels per day	mmcf	million cubic feet
bcf	billion cubic feet	mmcf/d	million cubic feet per day
boe	barrels of oil equivalent	mmbtu	million British thermal units
boe/d	barrels of oil equivalent per day	W.I.	working interest
\$/bbl	dollars per barrel	B.P.O.	before payout
\$/mcf	dollars per thousand cubic feet	A.P.O.	after payout

[FOUR YEAR REVIEW]

	1997	1998	1999	2000
FINANCIAL				
(\$000 except per share data)				
Gross revenue	81	4,476	11,162	29,593
Cash flow from operations	34	2,219	5,367	14,604
Per common share	0.02	0.19	0.39	0.97
Net earnings	6	321	1,072	5,870
Per common share	0.01	0.03	0.08	0.39
Capital expenditures, net	9,146	15,714	18,802	23,494
Working capital deficit (surplus)	(7,410)	2,682	2,951	5,517
Long-term debt	–	–	9,418	16,409
Common shares outstanding (000s)	11,602	13,602	14,922	15,029
Class B shares outstanding (000s)	1,171	1,171	1,171	1,170
Weighted average shares outstanding				
Common shares (000s)	1,972	11,723	13,730	15,060
OPERATIONS				
Production				
Crude oil and liquids (bbls/d)	366	655	803	1,303
Natural gas (mcf/d)		–	3,784	5,718
Total production (boe/d) (10:1)	366	655	1,181	1,875
Total production (boe/d) (6:1)	366	655	1,434	2,256
Average sales price				
Crude oil (\$/bbl)	24.68	18.10	24.38	40.44
Natural gas (\$/mcf)	–	–	2.91	4.92
Operating netback (\$/boe) (10:1)	14.84	10.69	15.03	27.06
Operating netback (\$/boe) (6:1)	14.84	10.69	12.39	22.49
Wells drilled				
Gross	4	31	16	33
Net	4.0	25.8	9.1	16.6
Reserves - Crude oil and NGLs (mbbls)				
Proved	894.7	2,411.4	3,081.1	4,424.5
Probable	316.5	1,325.3	996.7	1,244.8
Reserves - Natural gas (mmcf)				
Proved	–	10,033.4	19,232.0	21,024.8
Probable	–	87.1	10,816.2	5,929.0
Established Reserves (mboe)				
10:1 basis	1,053.0	4,081.7	6,043.5	7,445.8
6:1 basis	1,053.0	4,753.5	7,686.1	9,045.1
Undeveloped lands				
Gross acres	201,345	209,122	240,773	257,438
Net acres	179,896	186,889	198,733	193,773

[CORPORATE INFORMATION]

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TRANSFER AGENT

Computershare Trust Company of Canada
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STOCK EXCHANGE LISTING

The Canadian Venture Exchange
Symbols: PGX, PGX.B

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